

Annual Report 2005-06



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# Tu Shahin hai

An eagle you are

# parwaz hai kaam tera

Born to soar

# tere samne aasman

Skies galore

# aur bhi hain

For you to scale

*Allama Iqbal*



The new identity for J&K Bank is a visual representation of the Bank's philosophy and business strategy. The three coloured squares represent the regions of Jammu, Kashmir and Ladakh. The counter-form created by the interaction of the squares is a falcon with outstretched wings – a symbol of power and empowerment. The synergy between the three regions propels the bank towards new horizons. Green signifies growth and renewal, blue conveys stability and unity, and red represents energy and power. All these attributes are integrated and assimilated in the white counter-form.



# Chairman's Statement

The Jammu & Kashmir Bank is on the path to discover its uniqueness. The sui generis nature of the Bank spans structural distinctiveness – being Banker to the State Government; operational exclusivity – a virtual monopoly in J&K; and functional distinctiveness — being a government owned private sector bank. All these aspects accord unparalleled financial and non-financial advantages to the Bank that need to be garnered.

During the last financial year, the management of the Bank has set in motion a multi-pronged process to build an exclusive business model based on these unique features. The operationalisation of the business model will deliver a bottom-line growth that will compare favourably with the best in banking business — not only in India but also internationally.

It is now a well-accepted fact that the next three to five years will be the most challenging phase for the Indian banking sector. The banking industry in India is undergoing a major transformation due to changes in economic conditions and continuous deregulation. These continuous and multiple changes have a ripple effect on banks trying to graduate from a completely regulated seller's market to totally deregulated customer's market.

With the commercial banking sector expected to migrate to the Basel II regime in less than six months from now, the banking sector in India is heading towards consolidation. By 2009, the banking landscape of the country will change dramatically, giving foreign banks a level playing field. With an estimated capital infusion of Rs 42,000 crore by March 2010, consolidation will be the preferred alternative for banks to shore up their capital base. Mergers and acquisitions may also take place in the near future for compliance with minimum net worth requirement or norms on diversified ownership.

Also, as the bottom lines of domestic banks comes under increasing pressure and the options for organic growth exhaust themselves, banks will be exploring ways for inorganic expansion. Owing to a greater size and scale, consolidation will help save costs and improve operational efficiency. In the face of continuing strategic shifts in the Indian savings and investment markets; how individual banks, especially the smaller ones, reincarnate themselves to deliver profitable growth and maintain return ratios will be real challenge.

In this the banks that will have an edge over all the others are the ones which have a geographical space to themselves which they dominate. Equally important will be the ownership structure. On both accounts, J&K Bank stands in a category of its own. While the government holding of 53 per cent insulates it from the possible M&A activity, it does not do so from the business compulsion generated by such activity in the Banking space which will put on the Bank the pressure to perform.

To anticipate these impending macroeconomic environmental changes and gearing up for the post-2009 challenge requires a recalibration of the existing business model. Moving away from the de-risking model – raising low cost deposits within J&K to lend outside the State — that had been successfully followed by the Bank in the last decade — the first step is to leverage the existing physical network to increase the local lending and create a virtuous cycle of lending and saving within J&K. Undoubtedly, this change is catalysed by positive socio-economic and political developments within the State and the peace process initiatives between India and Pakistan.

It needs to be recognised that J&K Bank in J&K operates, almost as if in a closed economy. The leakages from its network are low and consequently the retention and float factor is high. Given its physical and market dominance, an act of productive lending in the State by the Bank generates factor incomes, which in turn proportionately generate financial savings and thereby low cost deposits for the Bank. In many ways, for J&K Bank, lending in the State acts like high-powered money and triggers off a virtuous cycle of advances and low cost deposits.

This understanding has to drive the business model of J&K Bank and be the underpinning for its developmental role in the State. Being a small bank with a large part of its portfolio in consortium lending outside the State, asset re-pricing to improve margins is not an exercisable option. With less than 25 per cent of its total commercial lending within J&K, the only way forward, therefore, is to realign the lending pattern in favour of the under-served State where the margins are comparably much higher because of the granular lending.

This macro aspect combined with the micro reality of advances yield being much higher in J&K than outside gives the shift in business composition an unassailable and compelling logic. At the macro-level it gives the Bank a self-perpetuating business growth and at the micro-level it is margin-enhancing for the Bank. This play of uniqueness is almost fortuitous during a regime of rising interest rates, falling returns on the investment portfolio and the increasing liability costs, which put severe pressure on the margins of the Bank.

The first critical challenge to arrest the decline in the margins was met with a reasonable degree of success. The next step is of dovetailing this immediate compulsion with a long-term growth strategy. The credit appetite and absorption in J&K is limited. And so is the average ticket size of advances. This means that the Bank's business model walks on two legs — low volume-high margin lending in J&K and a high volume-low margin business in rest of the country. Given the resource fungibility and our existing network outside, it is easy to straddle both the markets in line with the extant business requirements. This is an advantage that no other Bank in the country has.

It is difficult to improve the margins without re-pricing of the assets in the rest of the country that account for almost 60 per cent of the total advances of the Bank. In addition to the asset re-pricing, a long-term strategy to ensure better pricing outside J&K is to try and become a specialist bank outside J&K. Even though the Bank is doing excellent business outside the State, it lacks an identity outside the State. That identity cannot be built up by emulating other Banks with vanilla or run-of-the-mill products. A retail foray outside J&K is limited because of a limited distribution network. So, in addition to the usual large corporate business, which is low-margin high volume and invariably happens in a consortium, J&K Bank is putting in place a complete strategy to become a sector specialist outside J&K.

Accordingly, the Bank is looking at a leather chain in Chennai, Kanpur, Agra and Kolkatta. Similarly, spices branches in South and castor branches in Western India are in the process of being set up. That does not mean that other businesses from these branches are dispensed with. However, since most of such businesses are community businesses, these branches get centered around not just sectors but also communities. Through this route, the Bank is positioning itself as a super-specialist bank. Depending on the way the experiment shapes up, in rest of the country the Bank can become a super-specialty Bank focusing on financing commodities. In addition to creating an identity outside J&K, this strategy will have forward linkages with large corporate business as most large Indian companies are essentially commodity corporates.

In a phase of high economic growth, both within the State and nationally, asset growth is not a problem. Indeed, with a credit growth of almost 30 per cent, the real issue is not growth but managing growth. Two aspects stand out – liability management and asset quality. On the

liability side, better liability management has become a focus area for the Bank. This stems from the belief that in short to medium run, banking is more about liability management rather than asset planning. Starting from a new liability management division, a conscious decision has been made to move away from high cost to low cost deposits. The strategy of meeting business targets with high-cost corporate term deposits earlier led to a severe problem of high cost of funds and was the significant reason for decline in margins.

Also, these deposits were usually garnered at the fag end of the financial year which created deployment problems for at least two quarters thereafter. The Bank has now de-emphasized the role of corporate deposits, even at the cost of slowing down the balance sheet size growth. An improvement in the current account-saving account (CASA) ratio and a reduction in the cost of deposits bears testimony to better liability management. The simple mantra is to increase balance sheet by one per cent only if incremental profits increase by more than one and a half times.

To ensure that this simple equation holds during a regime of rising interest rates, requires single minded attention to the investment strategy. There has been a concerted effort to minimise the losses on the investment book. The investment strategy has been one of shrinking the size, reducing the maturities and substituting credit derivatives with credit. The efforts on the investment side have yielded excellent results and the portfolio stands insulated to the extent of a 50 basis point hike in interest rates. The government securities portfolio is now completely out of the woods but the same can't be said of the bond portfolio in which the reduction has been hampered by very poor liquidity conditions in the bond market and drying volumes.

The initial results of the all-round new strategy are quite encouraging; profits are up by 54 per cent; net interest margins are up to 3.04 per cent. The cost to income ratio of the Bank has declined from 47 per cent to 43 per cent; the asset quality has seen a further improvement and the gross NPA levels declined to 2.5 as a per cent of the gross advances of the Bank.

The greatest achievement of the Bank during the course of last year has been to become a financially stronger Bank. The direct indication of this is that the NPA coverage ratio, which was 48 per cent, has been increased to 64 per cent in the course of one year. To do this, the provisioning levels have been hiked by almost 200 per cent. This increase in the allowance for probable losses and poor quality of assets has made the Bank stronger. As a result of the high level of provisioning, the Bank's net NPA is less than 1 per cent for the first time.

An important aspect of the Bank has been its ownership. The foreign institutional investors have now become the largest shareholders of the Bank after the Government of Jammu and Kashmir. Last year, the holding was 20 per cent and by March 31st, 2006, this level rose to 32 per cent. The quality of investment is the best in the breed. This level of FII holding in the Bank, enjoins upon us to manage and conduct our business at international standards. This is so because in the market for foreign institutional investment, J&K Bank is competing with the high quality banks across the globe.

Finally, an important landmark with respect to transparency of accounts was achieved in 2005-06. It was for the first time in the long history of the Bank that there is no auditor's qualification in this year's Bank's balance sheet. This is an indication of the management's commitment to adhere to all the regulatory and prudential norms, have complete transparency in doing business and reporting it.

**Haseeb A Drabu**  
Chairman & CEO

# Board of Directors

**Haseeb A Drabu**  
Chairman



**M S Verma**  
Director on the Board



**G P Gupta**  
Director on the Board

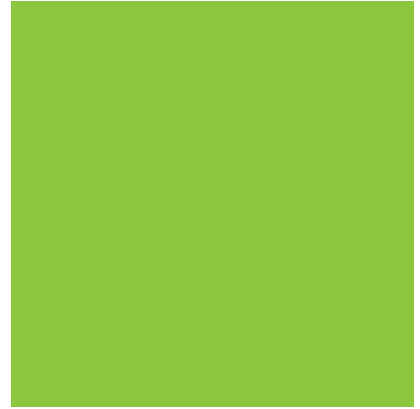


**B B Vyas (IAS)**  
Director on the Board

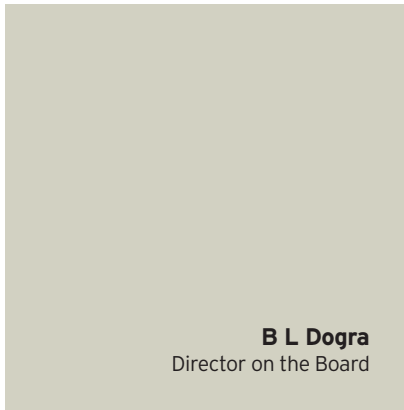
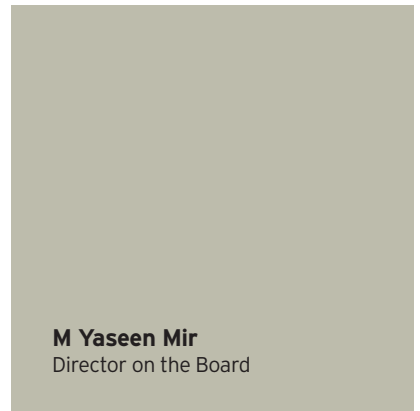




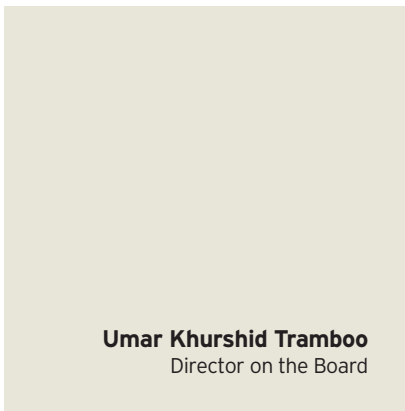
**Abdul Rauf Fazili**  
Executive Director



**M Yaseen Mir**  
Director on the Board



**B L Dogra**  
Director on the Board



**Umar Khurshid Tramboo**  
Director on the Board



# Management Team



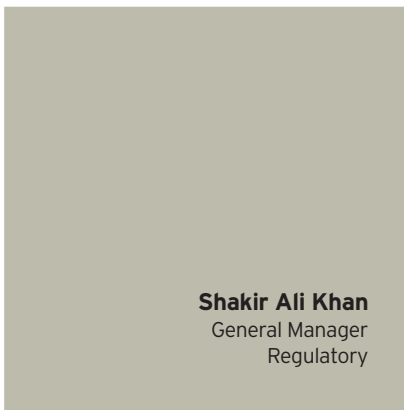
**Haseeb A Drabu**  
Chief Executive



**Mushtaq Ahmed**  
Executive President



**Abdul Rauf Fazili**  
Executive Director



**Shakir Ali Khan**  
General Manager  
Regulatory



**A K Mehta**  
General Manager  
HRD



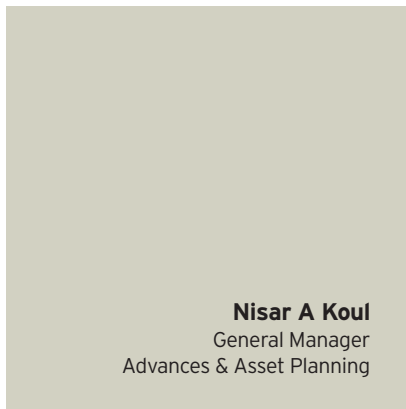
**Abdul Majid Mir**  
General Manager  
Risk & Finance



**Manzoor A Shah**  
General Manager  
Strategy & Business Development



**N D Samnani**  
General Manager  
Business Support Division &  
Customer Care



**Nisar A Koul**  
General Manager  
Advances & Asset Planning



**Joint General Managers**

M A Kanth  
Ajit Singh

**Deputy General Managers**

S D S Jamwal  
S C Sharma  
A K Durani  
K L Dhar  
G A Beigh  
M Bashir-ul-Islam  
G M Reshi  
Muneer Ahmad  
G A Regoo  
A M Mir  
Suman Durswal  
Tafazal Hussain  
S S Nathyal  
Sahibzada Gh Mustafa  
M L Gupta  
K K Sharma  
Parvez Ahmed Nengroo

**Company Secretary**

Parvez Ahmed Nengroo

**Auditors**

Gupta Gupta & Associates  
Chartered Accountants

Gupta Sharma & Associates  
Chartered Accountants

Baweja & Kaul  
Chartered Accountants

**Registered Office**

M A Road  
Srinagar 190 001  
Jammu & Kashmir

**Corporate Headquarters**

M A Road  
Srinagar 190 001  
Jammu & Kashmir  
[www.jkbank.net](http://www.jkbank.net)



# Events

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1. Creating Assets: Mr G N Azad, Honourable Chief Minister, J&K, inspecting the model of Zonal Office Delhi Complex at Gurgaon.
2. Keep it up: Mr G N Azad, Honourable Chief Minister, J&K, presenting "Finance Man" Cricket trophy to Haseeb A Drabu, Chairman & CEO J&K Bank in Jammu.
3. A Helping Hand: Mr Khursheed Ahmad Malik, Commissioner Secretary (Public Distribution), J&K, donating a Tri Motor Cycle to a physically challenged student.
4. Jenab Mufti Muhammad Sayeed, the then Honourable Chief Minister, J&K, inaugurating Bagh-e-Dara Shikoh at Anantnag. Shri Mangat Ram Sharma the then Dy. Chief Minister J&K and Haseeb A Drabu, Chairman & CEO, J&K Bank were also present on the occasion.
5. Haseeb A Drabu announcing the year end results in Srinagar on 19th May, 2006.
6. Jenab Mufti Muhammad Sayeed, the then Honourable Chief Minister, J&K, inaugurating the walkway developed by our bank at Jammu.
7. Haseeb A Drabu, Chairman & CEO, J&K Bank and Management Team, interacting during "Customer Meet" in Srinagar.



## Performance Highlights





### Unique Characteristics

- Private sector bank despite government holding 53% of equity
- Operational exclusivity - a virtual monopoly in J&K; and functional distinctiveness - government owned private bank
- Sole banker and lender of last resort to the Government of J&K
- Only private sector bank designated as agent of RBI for banking business
- Carries out banking business of the Central Government
- Collects taxes pertaining to Central Board of Direct Taxes in J&K

### Infrastructure: Global Standards

- The fastest growing bank with 517 branches across the country.
- 98% of the business is computerized
- Anywhere Banking, Tele-banking and SWIFT facilities available
- Internet Banking, SMS and Mobile Banking provided
- ATMs connected globally to all MasterCard networked ATMs
- Mobile ATM Service available - first of its kind in Northern India
- J&K Bank Global Access Debit Cards: Cirrus and Maestro enabled
- Own Credit Card
- Live on RTGS System of RBI

### Financial Services portfolio: One stop for all financial needs

- Insurance joint venture with MetLife International  
Distributor of:
- Life Insurance products of MetLife (India) Pvt. Ltd.
- Non-Life Insurance products of Bajaj Allianz General Insurance Co. Ltd.
- Offering UTI and Kotak Mutual Funds
- Providing Depository Services
- Offering Stock Broking Services
- Collection agent for utility services provided by state and private sector



The background features abstract, organic shapes in blue and green. A large blue shape is in the upper right, and a large green shape is in the lower left. A white, curved shape separates the blue and green areas, resembling a stylized bird or a wave.

# Financials

2005-06



# Directors' Report

The Directors take pleasure in presenting the 68th Annual Report on the business and operations of your Bank together with the audited accounts for the year ended 31st March, 2006.

## **CAPITAL & RESERVES**

The Capital & Reserves of the Bank increased by Rs 134.07 crore to Rs 1799.47 crore during the year from Rs 1665.40 crore of the previous year.

## **PROFIT**

The Bank posted a net profit of Rs 176.84 crore for the financial year 2005-06 against a figure of Rs 115.07 crore in 2004-05 registering robust increase of 54%.

## **INCOME**

The total income of the Bank stood at Rs 1839.43 crore for the year under report against the previous year figure of Rs 1645.37 crore. The interest income (core income) and other income (other than trading) showed perceptible increase.

## **NET INTEREST INCOME (NII)**

The Bank maintained consistent growth in Net Interest Income (NII) during each of the quarters of FY 2005-06. NII from core Banking operations increased to Rs 663.72 crore for the period ended 31st March 2006, recording a growth of 11.32% up from Rs 596.24 crore in previous year. The main drivers for the improvement in NII include the business expansion as well as reduction in the cost of deposits.

## **CAPITAL ADEQUACY RATIO**

The Capital Adequacy Ratio stood at 12.14%, which is comfortably much above the minimum 9% stipulated by Reserve Bank of India. We do not foresee any major impact on our Capital Adequacy as per guidelines on implementation of Basel-II norms.

## **DIVIDEND**

Keeping in view overall performance of the Bank, the Directors are pleased to recommend payment of 80% dividend (free of tax) for the year ended 31st March 2006 subject to approval of shareholders.

## **BUSINESS PERFORMANCE**

The year saw a paradigm shift in the balance sheet management of the Bank with concerted focus on increasing and broad basing of the credit portfolio during the year under report. The Bank achieved an all time high business turnover of Rs 37967.75 crore up from Rs 33162.11 crore of the previous year recording a growth of 14.49%. The Bank maintained its growth momentum in all the important areas of its business operations.

## **DEPOSITS**

Bank's aggregate deposits recorded an appreciable increase of Rs 1839.67 crore to Rs 23484.64 crore at the end of financial year 2005-06 from the previous year figure of Rs 21644.97 crore. The deposit mix has also shown favourable improvement thereby reducing the average cost of deposits.

## **ADVANCES**

The focus on credit growth helped the Bank to record an impressive growth of 25.75% during the year. The total advances of the Bank increased to Rs 14483.11 crore against Rs 11517.14 crore of the previous year. The Bank continued its spotlight on priority sector, reflecting both its social commitment as also growing expertise and confidence with the sector as a viable commercial proposition.

## **FOREIGN EXCHANGE**

During the year under report, the Foreign Exchange business recorded an impressive growth of 39% to Rs 8284.22 crore as against Rs 5964.67 crore of the previous year. The contribution of this segment to the Bank's gross income has been to the tune of Rs 42.85 crore against Rs 38.22 crore of the previous year. The export turnover of the Bank increased from Rs 2211.51 crore to Rs 2412.90 crore registering an increase of 9%.

The Forex Dealing Room at Treasury Operations recorded a turnover of Rs 37396.73 crore and generated a net exchange earning of Rs 6.22 crore.

### INVESTMENT PORTFOLIO

The investment portfolio stood at Rs 9002.34 crore at the end of the financial year. The repositioning of the investment portfolio was completely in line with the strategic balance sheet management stance taken by the Bank to shield itself from the interest rate risk shocks in light of the hardening interest rate scenario.

### NON-PERFORMING ASSETS

In line with recovery policy, the Bank continued its focus on keeping the level of non-performing assets at minimal level and maintaining the best asset quality in its books. The net NPA was reduced from 1.41% in 2004-05 to 0.92% in 2005-06. Coverage ratio works out to 63.64% as against 48% of the previous year.

### INFORMATION TECHNOLOGY

Technology is the key to deliver customised financial solutions to the customers and is the single most important determinant of future supremacy. Adoption of latest Banking technology and innovation continues to remain a thrust area for the Bank with the stated objective to offer State-of-the-art world class Banking facilities to its customers. Extension of Delivery Channels like ATM, Anywhere Banking, POS, TeleBanking, Internet Banking, SMS Banking, Credit Cards etc. to new Members and areas / locations on the back of a robust communication networking of the branches and offices has been a priority during the year. More than 98.5% of business of the Bank stands computerised. Other transaction entities, controlling and administrative offices are also computerised. The number of branches that have rolled over to Core Banking Solution has touched 132 and the process of putting the rest of the branches has been undertaken on war footing.

The core Banking solution, which is operative in over 132 branches, provides the requisite technical support in strengthening the delivery channels and providing technology-based services to the Bank's valued customers. The Bank proposes to further expand its ATM network apart from exploring possible arrangements with other Bank's network.

The total ATMs installed have increased to 178. All these are MasterCard and NFS enabled.

Networking has been another area where the Bank has made substantial progress in switching over to high bandwidth leased lines from VSATs as a prelude to rollover of branches to Core Banking Solution. The VSATs are being shifted to remote locations having no leased line feasibility as of now. This has again enabled the Bank in covering all these branches under the networking and extension of Anywhere Banking facilities. The number of branches offering anywhere Banking facilities has reached 235.

With more and more data being consolidated at a Central location, by virtue of CBS, the Bank is now focusing towards putting in place systems and tools for monitoring and analysing the data for real time portfolio tracking, creation of business intelligence processes and at the same time addressing the needs of its customers in a better way. As part of implementation of complex data warehousing and analysis architecture, the Bank has started the implementation of an analytical tool from Oracle. The tool would further strengthen the MIS systems and would provide better DSS.

### DISTRIBUTION CHANNELS

During the year under report the Bank opened 14 new branches / extension counters. As on March 31, 2006, the Bank had 514 branches / extension counters, 4 Zonal Offices, 1 International Banking Division, 1 Datacentre, 6 depository service branches and 8 Currency Chests across the country. The Bank has specialised branches devoted to servicing particular customer segments such as Housing, SSI, Corporate Borrowers and Exports. The Bank has an operational Debit / Credit Cards base of 206719 as on 31st March 2006. The Bank has network arrangements with MasterCard International. In 2005-06, point of Sale (POS) saw a higher usage, with total POS terminals at 462.

### PRODUCTIVITY

- The average deposits per branch have increased to Rs 45.69 crore from Rs 43.29 crore of the previous year.
- The average deposit per employee stood at Rs 343.49 lakhs as against the previous year figure of Rs 314.93 lakhs.
- The average advances per branch and per employee stood at Rs 2818 lakhs and Rs 212 lakhs respectively.
- The per branch and per employee business has increased to Rs 7386.72 lakhs and Rs 555.33 lakhs respectively.

### DEPOSITORY PARTICIPATION

The Bank as a depository participant of National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CSDL) continued to achieve phenomenal growth in the said services during the year. The number of Depository accounts as on 31st March 2006 stood at 24910. The value of securities where Bank is custodian has increased to Rs 710247.75 lakhs. Depository

## Directors' Report ...

related services like online stock trading activity is being provided to clients at DP centres of the Bank in association with IL&FS InvestSmart Ltd., Mumbai.

### INSURANCE BUSINESS

During the year under review the Bank as a corporate agent further intensified the marketing of the Insurance products of MetLife India Insurance Co. Pvt. Ltd. and Bajaj Allianz General Insurance Co. Limited in the areas, which were hitherto not covered by other competitors in the business. Bank has sold 10102 life policies of MetLife India and collected annualized premium amount of Rs 1656.51 lakhs during the year. In the case of non-life business, the Bank has shown a better performance and collected aggregate premium amount of Rs 2367.44 lakhs, for 105443 policies. The Bank's Insurance business has thus recorded a business growth of 29.65% & 34.59% in life and non-life segments. This has yielded non-interest income of Rs 718.18 lakhs to the Bank against the previous year income of Rs 509.21 lakhs recording a jump of 41.04%.

### LEAD BANK RESPONSIBILITY

J&K Bank is the only Private Sector Bank entrusted with the responsibility of Convening State Level Bankers' Committee in the State of J&K. The Bank continued to discharge its Lead Bank responsibility in 8 out of 14 districts of J&K State satisfactorily. State Level Bankers' Committee Meetings (SLBC) and Sub-committee meetings of State Level Bankers' Committee were convened as per schedule. The district credit plans were prepared in-time and their implementation monitored closely at the District and State Level.

### REGIONAL RURAL BANKS

The performance of two Regional Rural Banks sponsored by the Bank has been quite satisfactory. The deposits of Jammu Rural Bank have increased by Rs 46.45 crore from Rs 568.31 crore as on 31st March 2005 to Rs 614.76 crore as on 31st March 2006. Advances have increased from Rs 136.35 crore as on 31st March 2005 to Rs 161.26 crore as on 31st March 2006. The Bank has registered an operating profit of Rs 6.54 crore during the period under review.

The deposits of Kamraz Rural Bank have increased by Rs 50.08 crore during the year from Rs 271.09 crore of last year to Rs 321.17 crore as on 31st March 2006. Advances have increased to Rs 63.39 crore as on 31st March 2006 from Rs 51.82 crore of the previous year.

### RATING OF BANK'S DEBT INSTRUMENTS

The Credit Rating Information Services of India Ltd. (CRISIL), one of the leading credit rating agency of the country, re-affirmed "P1+" rating to the Bank's Certificate of Deposit Programme, indicating the highest degree of safety for timely payment of principal and interest.

### COMPLIANCE AND VIGILANCE

Several initiatives were implemented during the year under report to bring in greater awareness among employees on preventive vigilance, adherence to systems and procedures, preventing / mitigating the instances of fraud, adherence to KYC and prevention of Money Laundering, Monitoring of suspicious transactions etc.

In tune with the changes that are taking place in Banking Sector and as per the guidelines of RBI, branches and other offices of the Bank are subjected to various types of Inspection & Audits including Risk Based Internal Audit, Information System Audit, Concurrent Audit, Income Audit, SNAP Audit, Statutory Audit – LFAR and RBI Inspection.

### DELISTING OF SECURITIES

During the financial year ended 31st March, 2006, the shares of the Bank were delisted from The Ludhiana Stock Exchange Association Limited and The Delhi Stock Exchange Association Limited with effect from 17th August, 2005 and 14th October, 2005, respectively.

SEBI had mandated the company's shares for compulsory trading and settlement in electronic form only. However, it had been observed that there had been nil trading of the company's shares on The Delhi Stock Exchange and The Ludhiana Stock Exchange, during the past few years and the entire trading of the company's shares was taking place on the NSE and BSE only, who offer investors access to on-line dealing in the company's shares across the country. In view of the nil trading on Delhi Stock Exchange and Ludhiana Stock Exchange, the shares of the Bank were delisted from these stock exchanges. The resolution for the said delisting of shares of the Bank was approved by the shareholders of the Bank in the 67th Annual General Meeting of the Bank, held on 8th June, 2005. The Bank has complied with all requirements of the SEBI (Delisting of Securities) Guidelines, 2003.

## CORPORATE GOVERNANCE

A good Corporate Governance system envisages application of best Corporate practices, adherence to ethical standards for effective management, establishment of highest standards of disclosure, transparency and performance and enhancement of wealth of all stakeholders.

The Bank has always maintained its efforts to institutionalise Corporate Governance Practices and does not intend solely the adherence of regulatory framework but to be reflected in its values and beliefs. Corporate Governance for J&K Bank is a continuous journey and seeks to maximize disclosures, transparency and performance and thereby enhancing the wealth of the shareholders and other stakeholders. Bank's Corporate Governance practices have not only complied with all statutory and regulatory requirements, but several matters have been voluntarily included in the statement on Corporate Governance annexed to this report. Further, Bank has annexed to this report, a certificate obtained from the Central Statutory Auditors regarding compliance of conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement.

## DIRECTORS RESPONSIBILITY STATEMENT

The Board of Directors hereby confirms that

- i. In the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;
- ii. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the State of affairs of the company at the end of the financial year and of the profit or loss of the company for that period
- iii. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv. We have prepared the annual accounts on a going concern basis.

## PARTICULARS OF EMPLOYEES

PARTICULARS OF EMPLOYEES AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975, FOR THE YEAR ENDED 31st MARCH, 2006, ARE AS UNDER:

- A. EMPLOYED THROUGHOUT THE FINANCIAL YEAR AND IN RECEIPT OF REMUNERATION AGGREGATING  
RS. 24,00,000/- OR MORE PER ANNUM  
-----NIL-----
- B. EMPLOYED FOR PART OF THE FINANCIAL YEAR AND IN RECEIPT OF REMUNERATION AGGREGATING  
RS. 2,00,000/- OR MORE PER MONTH

Name and Age (Years)	<b>Haseeb A Drabu (45)</b>
Designation Nature of duties	Chairman & CEO
Remuneration	Rs 22,77,600.00
Qualification	M & D.Phil Economics
Experience (years)	15 years
Date of employment	09.06.2005
Last employment	Economic Advisor Govt. of J&K

Remuneration includes Basic salary, DA and contribution to provident fund.

## BOARD OF DIRECTORS

M Y Khan, Government nominee Director, ceased to be Chairman & CEO of the Bank from 8th June, 2005, after completion of his tenure. Abdul Rauf Fazili was nominated as Government Director of the Bank, before his appointment as Executive Director of the Bank on 9th June, 2005. The State Government recalled B R Kundal (IAS), Government nominee Director, on 22nd December, 2005 and in his place nominated Bharat Bushan Vyas (IAS), on the same date. M L Mahajan, Deputy General Manager, Rural Planning & Credit Department, RBI, Jammu and Murli Radha Krishnan, General Manager, Issue Deptt, RBI, Jaipur, both RBI nominated Directors, ceased to be Directors of the Bank from 24th November, 2005, on being recalled by the RBI. Nasser Munjee, Vipin Malik and Munir-ud-din Shawl resigned from Directorship of the Bank from 5th August, 2005, 9th September, 2005 and 29th November, 2005, respectively.

Directors place on record their appreciation for the valuable services rendered by M Y Khan as Chairman & CEO, B R Kundal (IAS), M L Mahajan, Murli Radha Krishnan, Nasser Munjee, Vipin Malik and Munir-ud-din Shawl during their tenure as Directors of the Bank.

With a view to broad base the Board, eminent personalities –

Maya Shanker Verma was appointed and G P Gupta was re-appointed as additional Directors of the Bank. The Bank has immensely benefited from their rich and varied experience.

Umar Khurshid Trambo, Director, retires by rotation at the ensuing Annual General Meeting in accordance with Article 76 of the Articles of Association of the Bank and Provisions of the Companies Act, 1956, and being eligible, offers himself for reappointment.

## ACKNOWLEDGEMENT

The Directors express their sincere thanks to the Reserve Bank of India for its valuable guidance and support. The Directors acknowledge with appreciation the assistance and co-operation extended by IDBI, NABARD, SIDBI, SEBI, IBA, Stock Exchanges, Department of Company Affairs, Registrar of Companies, Comptroller and Auditor General, Central Government and Government of Jammu & Kashmir. The Directors also thank the customers and shareholders of the Bank for their valuable support. The Directors place on record deep appreciation for the work done by the Members of the staff at different levels, which enabled the Bank to record enviable growth and consolidate its position as one of the leading Banks in the country.

For and on behalf of the Board

**Haseeb A Drabu**  
Chairman & CEO

Place : Srinagar  
Dated : 19th May, 2006

# Management Discussion and Analysis

## MACROECONOMIC CONTEXT: REAL AND FINANCIAL CONTEXT

1. The macroeconomic growth scenario at the national level remained unchanged insofar as the economy continued to grow at the new trend rate of 8 per cent plus. The composition of this growth was such that the credit elasticity of growth was significantly higher compared to the eighties. This provided impetus for a high loan growth and credit off-take all around, with the exception of agriculture.
2. Unlike the real sector, the financial system saw dramatic reversals. From the point of Banks, the most important being the end to the era of low interest rates. A dramatic and decisive move towards higher rates meant a bloodbath in the bond market as yields moved up. As a consequence that the treasury incomes, which had for many years beefed up Bank bottom-lines, started eating into their profitability.
3. In the face of a sharp squeeze in margins and a continued high demand for credit, Banks tried to play the volume game. A loss in income because of low margins and declining yields on investment set the pace for a scorching pace of credit growth which reached levels of 35 per cent. At this point the asset quality became a concern for the regulator. In addition to raising rates, which didn't seem to dampen the credit growth, the Reserve Bank of India took a series of prudential measures to ensure adequate coverage of probable losses and poor assets.
4. The RBI hiked the provisioning in general and hiked sector risk weightage in particular. Indeed, it tried to raise the cost of credit for some sectors and virtually directed credit away from these sectors.
5. At the State level, which provides the operative economic context for the functioning of J&K Bank in the new strategy, the growth performance has been more than exceptional. The Gross State Domestic Product (GSDP), which is the total income of the economy, has seen a sharp turnaround in the last three years. On quick estimates basis, the GSDP at current prices for 2005-2006 is estimated to be Rs 20,877 crore. This represents an increase of 8.87 per cent over the previous year. In the fiscal 2005-2006, advance estimates indicate a 10 per cent increase over last year. In real terms this amounts to a growth of 5.7 per cent, given that the inflation is 4.3 per cent.
6. Per Capita Income at current prices is estimated at Rs 16,190 which is an increase of 5.7 per cent over the previous year. This level of Per Capita Income is lower than the All India Level of Rs 23,241. It is obvious that the decade and a half of turmoil has taken its toll on the economic prosperity of the people. For, there was a time when the State of J&K ranked above the national average in Per Capita Income.
7. The most important aspect of growth is its stability. Over the last 50 years or so, we have seen phases of high growth with high volatility; now we are seeing growth with stability. Stable growth is much more desirable than growth with instability. This is especially so for the impact of growth on poverty and unemployment.
8. In terms of the composition of GSDP, share of primary, secondary and tertiary sectors in GSDP is around 30 per cent, 17 per cent and 53 per cent respectively. There is little doubt that the tertiary sector or services is the fastest growing. The secondary sector, especially manufacturing or industrial sector growth has slightly slackened during 2004-05, while agriculture has shown a modest recovery.
9. There is no doubt that the major driver of economic growth in the State is public expenditure, especially, public capital expenditure. In the last three years, the State government has cumulatively spent Rs 35,000 crore of which about one third has been capital expenditure or in other words investment. It is this that lies at the heart of the nascent economic recovery. A large part of this expenditure is coming from the autonomous investment in infrastructure under the Prime Minister's four-year reconstruction plan. The total size of the reconstruction plan is Rs 26,000 crore, most of which is invested in power generation. A number of benefits accrue to the J&K Bank from this. First, of course, being the sole Banker to the Government of J&K, this money flows through the network of the Bank, thereby increasing the float. Second, and more important, is that the ancillary demand generated by these investments translates into credit growth. For this J&K Bank is best positioned to capitalise on.

### BANKING AND DEVELOPMENT OF J&K: CONTOURS OF CHANGE

1. For decades policy makers and development planners have been pointing out that the Banking sector is not fulfilling its role of financing development in the state. They have repeatedly pointed out that the credit-deposit ratio (CD ratio) is very low. From this, it has been rightly inferred that even though there is saving in the system, these savings are not being invested within the State. Bankers, on their part, have maintained that there are not many lendable projects. So the anomaly has grown over time and development of the State has suffered.
2. There is no denying that the CD ratio is low and as things stand there are a limited number of Bankable projects. The reason for this is that there is a mismatch between what the entrepreneurs in J&K need and what the Banks are willing or, to put it more accurately capable of lending. Our Banking system has not adapted to the requirements of our entrepreneurs and producers. We are a rural based commodity economy with a very large service sector and an artisan sub-economy, unlike any other sub-national economy in the country. At the same time, the Banking sector is geared only to meet the needs of a manufacturing based corporatised economic system. It is this mismatch that has to be understood by the Banking sector before it can finance development in the State. It is for this reason, for instance, that bulk of the horticulture business is funded outside of the Banking sector. Or for that matter, the artisan unit, still runs on receipt based financing.
3. To overcome this mismatch, three things have to be focused on:
  - a. New financial products and processes have to be developed
  - b. Quality of financial intermediation has to change
  - c. Rural finance strategy has to be developed.
4. The biggest hindrance in the Banking sector preventing it from playing its potential role in the development of the State is that a majority of our producers and businesses cannot leverage their assets in the present setup. The whole system is geared to a well-developed corporatised manufacturing economy; we are a service oriented primary producing economy. No one has given this aspect a thought. Currently, many of our producers receive loans from commercial Banks to finance working capital needs, but the amount is limited by the value of real estate collateral that can be pledged. If our growers, for instance, could collateralise their inventories or account receivables, they could obtain more financing that could then be used to on-lend to smaller suppliers and subcontractors, hitherto largely excluded from formal credit markets.
5. What is needed in J&K is a set of well thought out innovative lending methodologies. Some of the principal characteristics of micro-lending are
  - a. Production cycle oriented, working-capital loans.
  - b. Lending based on character, rather than collateral.
  - c. Sequential loans, starting small and increasing in size.
  - d. Group loan mechanisms as a collateral substitute.
  - e. Quick cash-flow analysis of businesses and households, especially for individual loans.
  - f. Frequent repayment schedules to facilitate monitoring of borrowers.
  - g. Turnover and not asset lending.
6. J&K Bank will focus on strengthening and improving financial retail capacity for rural financial services; and help to introduce new products and services for rural finance, once the policy environment is favourable and a number of solvent and capable financial intermediaries exist.
7. For the purposes of this strategy, some major symptomatic problems can be identified that need to be addressed:
  - a. limited access to short-term formal credit
  - b. market segmentation and lack of competition
  - c. limited availability of medium and long-term credit, paucity of operationally efficient and sustainable financial intermediaries and
  - d. a limited array of financial services.

## Management Discussion and Analysis ...

8. For J&K Bank which wants to catalyse development in the State, the biggest challenge is to change the quality of financial intermediation. This has to be done by increasing the extent to which the financial sector is accessible to the smaller market participants. Traditionally Banks have considered market access to be a by-product of financial sector deepening. It is always assumed that the access for the poor and for job-creating enterprises like small and medium enterprises will improve automatically if the financial sector is only stable and competitive enough. Our record clearly shows that this is not the case.
9. There is need to integrate micro-finance into the financial sector. We have to design a policy for the promotion, regulation and integration of micro-finance. The approach has to be a well-dosed balance of regulation and promotion. It is the Banking sector's duty to make sure that financial institutions reach out to more than just 10% of the population and if Banks cannot do it, then alternative suppliers should be encouraged to fill the gap.
10. Rural financial markets do not function properly and rural residents, who account for majority of our total population, have limited access to formal financial services, face a small array of financial products, and pay high costs for the financial services that they can access. The underdevelopment of financial markets has a negative effect on productivity enhancing investments, income expansion, and sectorial growth.
11. Financial markets do not function properly because of a triad of pervasive problems including unmitigated risk, imperfect information, and high transaction costs. In the past, interventions such as credit quotas and subsidized interest rates largely focused on treating symptoms such as lack of access by small and medium-scale farmers and business operators without an understanding of the underlying factors that shape rural financial markets and make small and medium-scale producers non-preferred clients. Consequently, the results were unsatisfactory and new efforts are required to address the underlying problems.
12. We have to have a rural finance strategy which addresses the main issues that hamper the growth and development of more complete and efficient rural financial markets. The strategy focuses on how to improve access to four specific financial services: credit, deposits, insurance and payments transfers. The primary, but not exclusive, target group is low and moderate-income rural entrepreneurs involved in both farm and non-farm productive and commercial activities. As change comes to J&K's rural areas, more of the rural population will depend on non-farm activities. In many instances, non-farm activities are and will be more easily Bankable than agricultural activities.
13. Therefore institution-building interventions should be multipronged and guided largely by country context, the quality of available leadership, and the level of institutional commitment to achieving financial self-sustainability. Because of the presence of many State-owned Banks in the field, their proper role is discussed separately.
14. Nonetheless, the goal is to extend the frontier of formal finance to incorporate rural areas based on principles of sustainability, efficiency, and significant outreach. Five interventions are possible:
  - a. Upgrade semiformal financial institutions to regulated financial intermediaries
  - b. Assist commercial Banks interested in serving low- and moderate-income clients
  - c. Link formal and informal financial intermediaries
  - d. Restructure and reform existing financial institutions
  - e. Create new financial institutions
15. To get a sense of the market for credit in J&K, if we were to look at the share of credit of all financial institutions in J&K, the share of the State is a measly 0.3 per cent of the total credit disbursed in the country. The share of the State's SDP in total GDP is about 0.70 per cent. Assuming that the credit intensity of State income is the same as national income, the credit disbursed in the State is less than half of the national level for every unit of income. Even if it were to be assumed that the same level of credit per unit of national income could be reached, the potential in J&K, from the existing levels, is more than double. This gives a rough idea of the level of poor financial development of the State and the resultant under-servicing of credit.
16. Looked at from the other point, J&K accounts for about 1 per cent of India's population and yet it absorbs only 0.3 per cent of the total credit of the country. Assuming that on an average the credit appetite for an average person in J&K is the same as that in the rest of the country – the Per Capita Income is only marginally lower – then the potential demand for personal credit is 300 per cent more than the current levels.

## Management Discussion and Analysis ...

17. The paradox of credit deployment in J&K – which is also an opportunity – is that the share of professional and other services in total credit is about 28 per cent, that for trade is 22 per cent, personal loans is 19 per cent and industry is 18 per cent. The share of the main productive and income generating sectors — horticulture and agriculture — is under 5 per cent. The scope for increasing this is evident even at credit elasticity of less than 1 per cent. Equally important is the fact that with 40 per cent of the credit deployment, which can be seen as a proxy for credit demand, being in the services sector, the traditional lending products are ill-suited for the State. What is required is a bouquet of new products related to turnover rather than asset based financing of production. These products will improve the capital use of the Bank manifold as it will allow the Bank to turnaround the capital many times over for the period of a typical term loan. It is this lending strategy that the Bank is gearing towards in the years to come.

### OPERATIONAL ASPECTS

#### Risk Management & Asset Quality

Risk Management function has been identified as one of the core competence areas and Bank has constituted an Integrated Risk Management Committee (IRMC) of the Board for effective enterprise-wide risk management and to define and review the overall risk philosophy and risk appetite of the Bank. IRMC is responsible for devising / deciding the policy(ies) and strategy(ies) for integrated risk management system in the Bank.

The risk philosophy of the Bank is ingrained in a clear understanding and definition of various risks, disciplined risk identification, assessment and measurement procedures and continuous monitoring. Rapid innovations in the instruments of risk transfer and risk management processes has made it possible for Banks to manage all the three genres of risk i.e., credit risk, market risk and operational risk in a much more methodical and scientific manner.

The credit portfolio is managed through target market definition, appropriate credit approval processes, ongoing post-disbursement monitoring and remedial management procedures. Portfolio diversification across the product, geographies and industries is recognized as a key risk mitigation tool in the light of volatility in business environment. The treasury functions are managed through well-laid organizational set-up and well-defined policies in consonance with RBI guidelines. The ALM functions are executed on the basis of fully computerised real-time data of Bank's assets and liabilities structure.

The Bank is in the final stages of implementation of Integrated Risk Management Systems with the help of consultants of repute. The project covers providing customised rating modules which shall help the Bank in systematising the credit risk and assist the Bank in estimating Probability of Default (PD), Loss Given Default (LGD), Credit Risk Capital and Risk Adjusted Return on Capital (RAROC) on Portfolio basis. We are sanguine that the Bank will be fully equipped to implement the revised capital adequacy framework as per the March 31, 2007 deadline prescribed by the RBI.

The Bank is also in the process of implementing an offsite RBIA tool that shall lay the framework for the Audit Plans and help the Bank in moving towards Risk based Supervision of its Business Operations at each Business unit level.

#### Products & Services

The biggest change in the financial sector in the 90's has been the productisation of finance. Banking is now about services and solutions. J&K Bank provides a range of traditional commercial Banking products and services to India's leading corporations and growth-oriented middle market businesses. The key commercial Banking products and services to corporate customers include (i) Credit Products and Structured Finance (TCF); (ii) Cash Management; (iii) Trade and Commodity Finance and (iv) Investment Banking, Local Debt Syndication and Securitisation.

A slew of new products is being developed which are in line with the credit requirements and business structure of the State. The possibility of introducing commodity futures and options for the major commodities of J&K – apples, walnut and saffron – is being explored. The Bank through its operations is focusing on Banking, insurance and asset management. J&K Bank branches are acting as nodal points for selling and cross selling the products of all the three activities. The Bank will optimise the growth opportunities arising out of retail Banking and small and medium enterprises.

#### Human Resources

J&K Bank is perhaps the first "Government owned" Bank, which is ready to offer its employees stock options. The Government of J&K has taken a decision to reduce its stake in the company in favour of the employees of the Bank. The amount by which it has reduced the stake, goes into an ESOP trust and the mechanics of giving options to the employees is being worked out.

To work out a revised compensation package across all levels, the Bank has hired an international HR Consultant. It is expected that one part of the restructuring will be to introduce a variable element in the compensation package.

## Management Discussion and Analysis ...

The Bank has endeavoured to bring the developmental aspect of our human resource onto the center stage of HRD thought and action. This has become all the more significant with the adoption of high end IT by the Banking industry as a whole. During the year 2005-06, a total of 3310 employees of the Bank were provided training in various fields of Banking as also on personal development and customer satisfaction. These trainings were provided at various training colleges of repute within India and abroad, besides the Banks own training colleges. Career Management is being linked to job system in tune with corporate goals of the Bank.

The Bank is in the process of setting up a residential training college in Srinagar with facilities to hold international conferences, seminars and symposia on Banking and finance. The college that shall have a separate wing for Banking Technology shall also provide trainings to participants from banks within the country and abroad.

The process of creation of new business divisions at corporate level has led to various promotions at key positions in the Top Management, and the same process of promotions shall percolate down to lower levels as well. Apart from improvement in the overall business performance this process shall also help the Bank in the direction of succession planning at various levels. The creation of zones was carried out to develop business on new lines and ensure prompt disposal of matters. District offices have been realigned so that they can help in business promotion rather than business administration.

### **New Initiatives**

The Bank works on the philosophy of maximizing value to all the stakeholders and understands and anticipates their needs and offers products and services to them at competitive prices. Keeping this in view, the Bank undertook following major initiatives during the year under report

### **Brand Strategy**

The Bank, in partnership with the country's renowned brand design and corporate strategy consultants, is working on a new logo and image for the Bank supported by a strategy to make it's competitive advantage sustainable especially in the State.

The new brand strategy aims to provide a visible improvement in work culture, Banking ambience and provide an exceptional and positive customer experience. The brand strategy initiatives in the year ahead are based on in-depth research and analysis and a series of discussions the consultants have held with the stakeholders of the Bank over the previous year.

### **MUTUAL FUND DISTRIBUTION**

#### **JK Bank signed MoU with Kotak Mahindra & UTI Asset Management Companies**

As an initiative to bring in world-class products / services to its customers, the Bank entered into strategic partnership with Kotak Mahindra Asset Management Company Ltd. (KMAMC) & UTI Asset Management Company (UTIAMC) for distribution of their mutual fund products. The Bank is also prepared to enter into strategic tie-ups with other Asset Management Companies of repute for distribution of mutual fund products. This would enable the Bank to create value for the customers besides increasing non-interest income for the Bank.

### **FINANCIAL INCLUSION**

To ensure financial inclusion of vast sections of population and also to strive for making our services liberally and easily accessible to all segments of society including the deprived and underprivileged ones, the Bank introduced a No-frills Savings Bank account under the name "SB UJALA" account. The account can be opened with a minimum initial cash deposit of Rs 50/- and the minimum balance to be maintained for keeping the account operational is Rs 50/-. The scheme was extensively promoted to create adequate awareness among the masses to accomplish the objective of financial inclusion of maximum number of people.

### **Reaching Out to All**

As part of the financial inclusion exercise the Bank has adopted two blocks, R.S.Pura in Jammu and Ganderbal in Srinagar, where the Bank shall endeavour to reach every household within the block. The response from these areas has been more than encouraging.

### **Cash Management & Bill Collection Services**

The Banks customised cash management and bill collection services continue to make important contributions to its overall growth.

## Management Discussion and Analysis ...

### Customer Service

The Bank has always endeavoured to provide better quality service to the customers with wider choice of products and services. Constant value addition was made to various range of products and services to maintain a balance between relationship and convenience Banking.

In order to redress grievances of customers, the scope of Banking Ombudsman Scheme 2002 has been enlarged by adherence to Banking Ombudsman Scheme 2006. The concept of Customer Advisory Forum has been successfully implemented in all the branches of our Bank which supplements the feedback received from customers during "Customer Meets".

It has been the Bank's firm and undeterred belief that customer is the lifeline of our organization. Your Bank has been making consistent efforts to nourish this lifeline so that it multiplies and flourishes in all directions.

### Community Service

The Bank has always been at forefront when it comes to social and community causes. Be it victims of natural disasters like fire, earthquake or patients with serious ailments with no means to tide over the unfortunate circumstances, the Bank has been there for providing support and lending a helping hand.

In a spontaneous reaction to devastating earthquake which rocked J&K State on 8th October, 2005 Bank initiated timely relief measures in the affected areas. A team of Bank officials rushed to the quake hit area and distributed blankets, water, food items and other essentials to victims. The Bank created a relief fund – "The J&K Bank Earthquake Relief Fund", for helping the needy victims of the massive earthquake and provided them succor.

The Bank continued to manage various Public Parks and during the year added one more to the list.

### Awards of Excellence

The Bank was awarded Asian Banking Award 2005 for its 'Development Project Financing Programme' in recognition of contributing significantly to the development of tourism industry of the J&K State. The Bank has won the Asian Banking Award for the second consecutive year.

## Key Financial Ratios

Particulars	As on 31st March, 2006	As on 31st March, 2005
1. Earning Per Share (Rs)	36.48	23.74
2. Book Value per Share (Rs)	371.20	343.54
3. Gross NPAs (Rs in Crore)	370.19	317.25
4. Gross NPAs (%)	2.5%	2.7%
5. Net NPAs (Rs in Crore)	133.87	162.94
6. Net NPA (%)	0.92%	1.41%
7. NPA Coverage Ratio (%)	63.64%	48%
8. Credit / Deposit (CD) Ratio (%)	61.67%	53.21%
9. CASA Ratio (%)	34.17%	32%
10. Return on Assets (%)	0.67%	0.47%
11. Return on Net worth (%)	10.21%	7.06%
12. Cost to Income Ratio (%)	43%	47%
13. Business Per Employee (Rs in Lakhs)	553.33	482.50
14. Net Profit per Employee (Rs in Lakhs)	2.59	1.67
15. Capital Adequacy Ratio (%)	12.14%	15.15%
i. Tier I Capital (%)	11.76%	12.48%
ii. Tier II Capital (%)	0.38%	2.67%
16. Economic Value addition (EVA) (%)	8.07%	4.69%

# Auditors' Report

To

The Shareholders of

**The Jammu & Kashmir Bank Limited**

1. We have audited the annexed Balance Sheet of the Jammu and Kashmir Bank Limited as at 31st of March 2006 and also the annexed Profit and Loss Account of the Bank for the year ended on that date in which are incorporated the returns of 39 Branches / Offices audited by us and 445 Branches / Offices audited by other auditors. We have also audited the cash flow statement annexed to the balance sheet for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The Balance Sheet and Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Sub Section (3C) of Section 211 of the Companies Act, 1956.

On the basis of audit indicated in the paragraph (1&2) above

## **WE REPORT THAT**

- a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of Audit and have found them to be satisfactory.
- b. The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.
- c. In our opinion proper books of account as required by laws have been kept by the Bank so far as appears from our examination of those books and proper returns adequate for the purpose of our audit have been received from the branches of the Bank.
- d. The Bank's Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account and the returns.
- e. On the basis of written representations received from the Directors, as on 31st of March, 2006, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st of March, 2006 from being appointed as a director in terms of Clause (g) of Sub-Section (1) of Section 274 of the Companies Act, 1956.
- f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with significant accounting policies and notes forming integral part of Accounts give the information required by the Companies Act, 1956 in the manner so required for Banking Companies and on such basis:
  - i. The Balance Sheet give a true and fair view of the state of affairs of the Bank as at 31st March, 2006.
  - ii. The Profit and Loss Account give a true and fair view of the profit of the Bank for the year ended on that date, and
  - iii. The Cash Flow Statement shows a true and fair view of cash flows for the year ended on that date.

**For Gupta Gupta & Associates**  
Chartered Accountants

**For Gupta Sharma & Associates**  
Chartered Accountants

**For Baweja & Kaul**  
Chartered Accountants

Place : Srinagar  
Dated : 19th May, 2006

Sd/-  
**(R K Gupta)**  
Partner  
M. No. 85074

Sd/-  
**(Satyam Gupta)**  
Partner  
M. No. 504340

Sd/-  
**(R K Mahapatra)**  
Partner  
M. No. 94348

# Balance Sheet

as at 31 March, 2006

	Schedule	As at 31.03.2006 (Rs '000' Omitted)	As at 31.03.2005 (Rs '000' Omitted)
<b>CAPITAL AND LIABILITIES</b>			
Capital	1	48,49,21	48,49,21
Reserves and Surplus	2	17,50,97,94	16,16,91,00
Deposits	3	2,34,84,63,71	2,16,44,97,27
Borrowings	4	2,63,93,47	3,19,48,19
Other Liabilities and Provisions	5	9,00,93,89	7,92,97,62
<b>Total</b>		<b>2,64,48,98,22</b>	<b>2,44,22,83,29</b>
<b>ASSETS</b>			
Cash and Balance with Reserve Bank of India	6	9,37,88,07	16,75,88,50
Balance with Banks & Money at Call & Short Notice	7	13,49,52,67	15,02,38,13
Investments	8	90,02,34,06	90,31,90,66
Advances	9	1,44,83,10,51	1,15,17,14,13
Fixed Assets	10	1,94,71,68	2,02,39,86
Other Assets	11	4,81,41,23	4,93,12,01
<b>Total</b>		<b>2,64,48,98,22</b>	<b>2,44,22,83,29</b>
Contingent Liabilities	12	49,70,13,49	43,97,09,33
Bills for Collection		3,80,18,35	5,20,13,08
Principal Accounting Policies	17		
Notes on Accounts	18		

The Schedules referred to above and the attached Cash Flow Statement form an integral part of the Balance Sheet

Sd/-  
(Haseeb A Drabu)  
Chairman

Sd/-  
(M S Verma)  
Director

Sd/-  
(G P Gupta)  
Director

Sd/-  
(B B Vyas, IAS)  
Director

Sd/-  
(Abdul Rauf Fazili)  
Executive Director

Sd/-  
(M Yaseen Mir)  
Director

Sd/-  
(B L Dogra)  
Director

Sd/-  
(Umar Khurshid Tramboo)  
Director

Sd/-  
(Mushtaq Ahmad)  
Executive President

Sd/-  
(Abdul Majid Mir)  
General Manager

Sd/-  
(Parvez Ahmed)  
Company Secretary

Place : Srinagar  
Dated : 19th May, 2006

In terms of our Report of even date annexed

For Gupta Gupta & Associates  
Chartered Accountants

For Gupta Sharma & Associates  
Chartered Accountants

For Baweja & Kaul  
Chartered Accountants

Place : Srinagar  
Dated : 19th May, 2006

Sd/-  
(R K Gupta)  
Partner  
M. No. 85074

Sd/-  
(Satyam Gupta)  
Partner  
M. No. 504340

Sd/-  
(R K Mahapatra)  
Partner  
M. No. 94348

# Profit and Loss Account

year ended 31st March, 2006

	Schedule	Year Ended 31.03.2006 (Rs '000' Omitted)	Year Ended 31.03.2005 (Rs '000' Omitted)
<b>I. INCOME</b>			
Interest Earned	13	17,06,25,24	15,49,22,61
Other Income	14	1,33,17,72	96,14,33
<b>Total</b>		<b>18,39,42,96</b>	<b>16,45,36,94</b>
<b>II. EXPENDITURE</b>			
Interest Expended	15	10,42,52,71	9,52,99,46
Operating Expenses	16	3,45,25,44	3,22,79,71
Provisions and Contingencies		2,74,80,47	2,54,50,87
<b>Total</b>		<b>16,62,58,62</b>	<b>15,30,30,04</b>
<b>III. NET PROFIT FOR THE YEAR</b>			
<b>Total</b>		<b>1,76,84,34</b>	<b>1,15,06,89</b>
<b>IV. APPROPRIATIONS</b>			
Profit Brought Down		1,76,84,34	1,15,06,89
Deferred Tax Asset (Earlier Years)		1,44,74	—
<b>Total</b>		<b>1,78,29,08</b>	<b>1,15,06,89</b>
APPROPRIATED / TRANSFERED TO			
i. Statutory Reserve		44,61,84	28,80,48
ii. Capital Reserve		2,45,72	6,84,39
iii. Revenue and Other Reserve		4,46,99,38	35,56,99
– Transfer from Investment Fluctuation Reserve		(2,52,06,08)	(1,07,93,92)
– Transfer from / to P&L A/c		(1,07,93,92)	1,07,93,92
iv. Final Dividend Proposed		38,78,22	38,78,22
v. Tax on Dividend		5,43,92	5,06,82
<b>Total</b>		<b>1,78,29,08</b>	<b>1,15,06,89</b>
Principal Accounting Policies	17		
Notes on Accounts	18		
Earning per Share (Basic / Diluted)		36.48	23.73

The Schedules Referred to above and the attached Cash Flow Statement form an integral part of the Balance Sheet

Sd/- (Haseeb A Drabu) Chairman	Sd/- (M S Verma) Director	Sd/- (G P Gupta) Director	Sd/- (B B Vyas, IAS) Director
Sd/- (Abdul Rauf Fazili) Executive Director	Sd/- ( M Yaseen Mir) Director	Sd/- (B L Dogra) Director	Sd/- (Umar Khurshid Trambo) Director
Sd/- (Mushtaq Ahmad) Executive President	Sd/- (Abdul Majid Mir) General Manager	Sd/- (Parvez Ahmed) Company Secretary	

Place : Srinagar  
Dated : 19th May, 2006

In terms of our Report of even date annexed

Place : Srinagar Dated : 19th May, 2006	<b>For Gupta Gupta &amp; Associates</b> Chartered Accountants Sd/- (R K Gupta) Partner M. No. 85074	<b>For Gupta Sharma &amp; Associates</b> Chartered Accountants Sd/- (Satyam Gupta) Partner M. No. 504340	<b>For Baweja &amp; Kaul</b> Chartered Accountants Sd/- (R K Mahapatra) Partner M. No. 94348
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# Schedules to the Balance Sheet

as at 31st March, 2006

	As at 31.03.2006 (Rs '000' Omitted)	As at 31.03.2005 (Rs '000' Omitted)
<b>SCHEDULE 1 CAPITAL</b>		
<b>AUTHORISED CAPITAL</b>		
75,00,00,00		
Equity Shares of Rs 10/- Each	75,00,00	75,00,00
<b>ISSUED</b>		
48,49,97,34		
Equity Shares of Rs 10/- Each	48,49,97	48,49,97
<b>SUBSCRIBED AND PAID-UP</b>		
48,47,77,02 (Previous year 48,47,77,02)		
Equity Shares of Rs 10/- Each	48,47,77	48,47,77
Add Forfeited Shares A/c (21,900)	1,44	1,44
	48,49,21	48,49,21
<b>SCHEDULE 2 – RESERVES &amp; SURPLUS</b>		
<b>I. Statutory Reserves</b>		
Opening Balance	4,23,78,52	3,94,98,04
Additions during the Year	44,61,84	28,80,48
Total	<b>4,68,40,36</b>	<b>4,23,78,52</b>
<b>II. Capital Reserves</b>		
Opening Balance	32,57,32	25,66,26
Additions during the year	2,45,72	6,91,06
Total	<b>35,03,04</b>	<b>32,57,32</b>
<b>III. Share Premium</b>		
Opening Balance	86,77,91	86,64,53
Additions during the year	—	13,38
Total	<b>86,77,91</b>	<b>86,77,91</b>
<b>IV. Revenue and Other Reserves</b>		
Opening Balance	7,13,77,25	6,78,20,27
Additions during the year	4,46,99,38	35,56,98
Total	<b>11,60,76,63</b>	<b>7,13,77,25</b>
<b>V. Investments Fluctuation Reserve</b>		
Opening Balance	2,52,06,08	3,60,00,00
Additions / deductions during the year	(2,52,06,08)	(1,07,93,92)
Total	—	<b>2,52,06,08</b>
<b>VI. Profit and Loss Account</b>		
Opening Balance	1,07,93,92	—
Additions / (Deductions) during the year	(1,07,93,92)	1,07,93,92
Total	—	1,07,93,92
Total (I, II, III, IV, V & VI)	<b>17,50,97,94</b>	<b>16,16,91,00</b>

Schedules to the Balance Sheet as at 31st March, 2006 ...

<b>SCHEDULE 3 – DEPOSITS</b>	<b>As at 31.03.2006 (Rs '000' Omitted)</b>	<b>As at 31.03.2005 (Rs '000' Omitted)</b>
A. I. Demand Deposits		
i. From Banks	50,13,20	50,72,97
ii. From Others	29,61,26,37	26,89,34,66
Total	<b>30,11,39,57</b>	<b>27,40,07,63</b>
II. Saving Bank Deposits	50,13,50,72	41,85,65,07
III. Term Deposits		
i. From Banks	26,29,74,89	32,28,36,16
ii. From Others	1,28,29,98,53	1,14,90,88,41
Total	1,54,59,73,42	1,47,19,24,57
Total A (I+II+III)	<b>2,34,84,63,71</b>	<b>2,16,44,97,27</b>
B. I. Deposits of branches in India	2,34,84,63,71	2,16,44,97,27
II. Deposits of branches outside India	Nil	Nil
Total B (i+ii)	<b>2,34,84,63,71</b>	<b>2,16,44,97,27</b>

**SCHEDULE 4 – BORROWINGS**

I. BORROWINGS IN INDIA		
i. Reserve Bank of India	—	—
ii. Other Banks	—	1,20,00,00
iii. Other Institutions & Agencies	23,01,37	23,98,19
Total	<b>23,01,37</b>	<b>1,43,98,19</b>
II. BORROWINGS OUTSIDE INDIA	2,40,92,10	1,75,50,00
Secured borrowings included in I & II above	Nil	Nil
Grand Total (I & II)	<b>2,63,93,47</b>	<b>3,19,48,19</b>

**SCHEDULE 5**

<b>OTHER LIABILITIES AND PROVISIONS</b>		
I. Bills Payable	1,55,96,37	2,91,56,20
II. Inter Office Adjustments (Net)	2,11,84,35	1,00,37,02
III. Interest Accrued on Non-cumulative deposits	1,27,89,74	69,28,12
IV. Unsecured Redeemable Debenture / Bonds (Subordinated Debts for Tier II Capital)	87,00,00	87,00,00
V. Provision Against Standard Assets	55,47,31	30,31,83
VI. Other (Including Provisions)	2,62,76,12	2,14,44,45
Total	<b>9,00,93,89</b>	<b>7,92,97,62</b>

Schedules to the Balance Sheet as at 31st March, 2006 ...

<b>SCHEDULE 6</b>	<b>As at 31.03.2006 (Rs '000' Omitted)</b>	<b>As at 31.03.2005 (Rs '000' Omitted)</b>
<b>CASH AND BALANCES WITH RESERVE BANK OF INDIA</b>		
I. Cash in Hand (Including Foreign Currency Notes)	1,27,43,04	1,16,32,91
II. Balance with Reserve Bank of India		
i. In Current Accounts	8,10,45,03	15,59,55,59
ii. In Other Accounts	—	—
Total	<b>9,37,88,07</b>	<b>16,75,88,50</b>

**SCHEDULE 7**

<b>BALANCE WITH BANKS AND MONEY AT CALL &amp; SHORT NOTICE</b>		
<b>1. IN INDIA</b>		
I. Balance with Banks		
a. In Current Accounts	73,50,04	84,35,62
b. In Other Deposit Accounts	10,17,05,09	5,58,02,50
Total (I)	<b>10,90,55,13</b>	<b>6,42,38,12</b>
II. Money At Call and Short Notice		
i. With Banks	2,50,00,00	8,60,00,00
ii. With Other Institutions	—	—
Total (II)	2,50,00,00	8,60,00,00
Total (I & II)	<b>13,40,55,13</b>	<b>15,02,38,12</b>
<b>2. OUTSIDE INDIA</b>		
I. In Current Accounts	8,97,54	—
II. In Other Deposit Accounts	—	—
III. Money at Call & Short Notice	—	—
Total 2 of (i, ii & iii)	8,97,54	—
Grand Total (1 & 2)	<b>13,49,52,67</b>	<b>15,02,38,12</b>

Schedules to the Balance Sheet as at 31st March, 2006 ...

<b>SCHEDULE 8 – INVESTMENTS</b>	<b>As at 31.03.2006 (Rs '000' Omitted)</b>	<b>As at 31.03.2005 (Rs '000' Omitted)</b>
I. INVESTMENTS IN INDIA	90,68,60,20	91,03,34,61
Gross	66,26,14	71,43,95
Less: Depreciation	90,02,34,06	90,31,90,66
i. Government Securities	63,50,24,62	57,84,74,95
ii. Other Approved Securities	43,01,64	51,25,24
iii. Shares (Pref. + Equity)	54,85,86	70,70,91
iv. Debentures and Bonds	17,62,20,30	26,77,14,43
v. Sponsored Institutions and Joint Venture	68,57,27	68,57,27
vi. Others—		
a. Certificate of Deposit	2,74,15,87	—
b. Mutual Funds	1,46,00,00	16,50,00
c. Indra / Kisan Vikas Patra	—	12,77
d. Commercial Paper	54,47,20	1,17,94,19
e. Rural Infrastructure Development Fund (NABARD)	2,40,31,30	2,44,90,90
f. Application Money	8,50,00	—
Total (I)	<b>90,02,34,06</b>	<b>90,31,90,66</b>
II. INVESTMENTS OUTSIDE INDIA	—	—
i. Government Securities	Nil	Nil
ii. Subsidiaries and / or Joint Ventures abroad	Nil	Nil
iii. Others (Swap)	Nil	Nil
Total (II)	—	—
Total (I & II)	<b>90,02,34,06</b>	<b>90,31,90,66</b>
III. INVESTMENT CATEGORY-WISE		
A. Held to Maturity	48,61,53,29	52,83,22,01
B. Held for Trading	—	2,15,32
C. Available for Sale	41,40,80,77	37,46,53,33
Total (A+B+C)	<b>90,02,34,06</b>	<b>90,31,90,66</b>

Schedules to the Balance Sheet as at 31st March, 2006 ...

		As at 31.03.2006 (Rs '000' Omitted)	As at 31.03.2005 (Rs '000' Omitted)
<b>SCHEDULE 9 – ADVANCES</b>			
A.	i. Bills Purchased and Discounted	5,20,39,78	3,39,95,94
	ii. Cash Credits, Overdrafts and Loans Repayable on Demand	50,24,23,58	43,04,06,14
	iii. Term Loans	89,38,47,15	68,73,12,05
	<b>Total</b>	<b>1,44,83,10,51</b>	<b>1,15,17,14,13</b>
B.	i. Secured by Tangible Assets	92,07,70,56	72,32,94,69
	ii. Covered by Bank / Govt. Guarantees	35,14,75,74	29,52,62,72
	iii. Unsecured	17,60,64,21	13,31,56,72
	<b>Total</b>	<b>1,44,83,10,51</b>	<b>1,15,17,14,13</b>
C.	I. Advances in India		
	i. Priority Sector	28,27,86,44	25,10,11,28
	ii. Public Sector	40,30,08,35	33,48,28,21
	iii. Banks	7,53,28,59	6,00,30,91
	iv. Others	68,71,87,13	50,58,43,73
	<b>Total</b>	<b>1,44,83,10,51</b>	<b>1,15,17,14,13</b>
	II. Advances Outside India		
	Due from Banks	Nil	Nil
	Due from Others	Nil	Nil
	<b>Grand Total (I &amp; II)</b>	<b>1,44,83,10,51</b>	<b>1,15,17,14,13</b>

**SCHEDULE 10 – FIXED ASSETS**

<b>I. PREMISES</b>			
a.	Gross Block at the beginning of the year	1,62,71,33	1,53,80,54
	Additions during the year	3,80,90	10,43,82
		1,66,52,23	1,64,24,36
	Deductions during the year	8,29	1,53,03
	<b>Total (a)</b>	<b>1,66,43,94</b>	<b>1,62,71,33</b>
	Depreciation to date	57,09,21	48,00,41
		1,09,34,73	1,14,70,92
b.	Advance against flats	3,82,69	3,35,82
c.	Constructions work in progress	2,46,58	2,46,75
	<b>Total (I) [ a+b+c]</b>	<b>1,15,64,00</b>	<b>1,20,53,49</b>
<b>II. OTHER FIXED ASSETS</b>			
(Including Furniture & Fixtures)			
	Gross Block at the beginning of the year	2,18,73,57	1,77,85,30
	Additions during the year	29,34,20	42,26,07
		2,48,07,77	2,20,11,37
	Deductions during the year	2,29,19	1,37,80
		2,45,78,58	2,18,73,57
	Depreciation to date	1,66,70,90	1,36,87,20
	<b>Total (II)</b>	<b>79,07,68</b>	<b>81,86,37</b>
	<b>Grand Total (I &amp; II)</b>	<b>1,94,71,68</b>	<b>2,02,39,86</b>

Schedules to the Balance Sheet as at 31st March, 2006 ...

	As at 31.03.2006 (Rs '000' Omitted)	As at 31.03.2005 (Rs '000' Omitted)
<b>SCHEDULE 11 – OTHER ASSETS</b>		
I. Interest Accrued but not Due	1,26,30,53	1,82,44,05
II. Interest Accrued and Due	2,00,38	4,11,70
III. Inter Office Adjustment (Net)	—	—
IV. *Tax paid in Advance / Tax Deducted at Source (Net of Provisions)	78,46,47	69,56,65
V. Stationery and Paper in Hand	2,75,93	2,92,54
VI. Deferred Tax Asset	2,98,64	32,76
VII. Others	2,68,89,28	2,33,74,31
Total	<b>4,81,41,23</b>	<b>4,93,12,01</b>

\* Includes both I. Tax as well as Fringe Benefit Tax

**SCHEDULE 12 – CONTINGENT LIABILITIES**

I. Claims against the Bank not		
Acknowledged as Debts	8,32,84	9,45,09
II. Liability on account of outstanding forward		
Exchange Contracts	27,46,39,95	25,51,75,61
III. Guarantees given on behalf of constituents:		
a. In India	6,62,55,33	6,31,05,79
b. Outside India	9,38,28	2,32,86
IV. Acceptances, Endorsements & Other Obligations	15,36,05,28	12,00,63,06
V. Other items for which the Bank is		
Contingently liable	7,41,81	1,86,92
Total	<b>49,70,13,49</b>	<b>43,97,09,33</b>

## Schedules to the Profit & Loss Account

	Year Ended 31.03.2006 (Rs '000' Omitted)	Year Ended 31.03.2005 (Rs '000' Omitted)
<b>SCHEDULE 13 – INTEREST EARNED</b>		
I. Interest / Discount on Advances / Bills	11,02,37,25	8,75,53,11
II. Income on Investments	5,61,06,83	6,45,44,83
III. Interest on Balances with RBI and Other Inter-Bank Funds	42,81,16	28,24,67
<b>Total</b>	<b>17,06,25,24</b>	<b>15,49,22,61</b>

### SCHEDULE 14 – OTHER INCOME

I. Commission, Exchange & Brokerage	71,92,59	49,39,94
II. Profit on Redemption & Sale of Investments (Less Loss on Investments)	5,68,92	29,89
III. Profit on Sale of Land, Buildings & Other Assets		
IV. Profit on Exchange Transactions (Less Loss on E / Transactions)	7,38,92	6,62,30
V. Income earned by way of Dividends etc. from Subsidiaries, Companies and / or Joint Ventures abroad / in India	6,94,08	4,80,29
VI. Miscellaneous Income	41,23,21	35,01,91
<b>Total</b>	<b>1,33,17,72</b>	<b>96,14,33</b>

### SCHEDULE 15 – INTEREST EXPENDED

I. Interest on Deposits	10,26,48,04	9,29,17,20
II. Interest on RBI / Inter-Bank Borrowings	5,82,42	13,60,01
III. Others	10,22,25	10,22,25
<b>Total</b>	<b>10,42,52,71</b>	<b>9,52,99,46</b>

### SCHEDULE 16 – OPERATING EXPENSES

I. Payments for Employees	1,92,39,97	1,78,82,04
II. Rent, Taxes and Lighting	22,75,96	22,04,69
III. Printing and Stationery	3,89,20	4,05,86
IV. Advertisement and Publicity	3,05,97	4,53,23
V. Depreciation on Bank's Property	38,92,49	43,42,11
VI. Directors Fees, Allowances and Expenses	16,92	25,72
VII. Auditors Fees & Expenses (Including Branch Auditor's Fees & Expenses)	2,98,65	2,88,48
VIII. Law Charges	58,52	70,04
IX. Postage, Telegrams, Telephones etc.	4,13,99	4,31,90
X. Repairs and Maintenance	4,73,82	3,25,88
XI. Insurance	15,33,12	11,79,97
XII. Other Expenditure	56,26,83	46,69,79
<b>Total</b>	<b>3,45,25,44</b>	<b>3,22,79,71</b>

# Schedule 17 Principal Accounting Policies

## 1. Accounting Conventions

The accompanying financial statements are prepared by following the going concern concept and on the historical cost basis unless otherwise stated and conform to the statutory provisions and practices prevailing within the Banking Industry in the country.

## 2. Transactions involving Foreign Exchange

- i. Monetary Assets and Liabilities as on balance sheet date have been translated using closing rate as at year end announced by Foreign Exchange Dealers Association of India.
- ii. Exchange differences arising on settlement of monetary items have been recognised as income or as expense in the period in which they arise.
- iii. The premium or discount arising at the inception of a forward exchange contract, which is not intended for trading or speculation purpose has been amortised as expense or income as on the balance sheet date.

## 3. Investments

The investment portfolio of the Bank (SLR & Non SLR securities) is classified into three categories in accordance with the RBI guidelines viz,

- a. Held to maturity
- b. Available for sale
- c. Held for trading

For disclosure in Balance Sheet, the investments are disclosed as per the existing six classifications viz.,

- i. Government Securities
- ii. Other approved securities
- iii. Shares
- iv. Debentures and Bonds
- v. Investment in Subsidiaries and Joint Venture
- vi. Others (CP, CD, Mutual fund units, RIDF etc.).

The valuation has been carried out as per RBI guidelines more specifically detailed hereunder:

- i. Investments classified under “Held to Maturity” category are carried at acquisition cost and not marked to market. Any premium on acquisition is amortized over the remaining period of the security on a straight-line basis.
- ii. The individual scrips in the “Available for Sale” and “Held for trading” category are marked to market at quarterly and monthly intervals respectively. While the net depreciation under each classification is recognized and fully provided for, the net appreciation under each classification is ignored.

### Other Investments

- a. Investments in sponsored institutions are valued at carrying cost and shares of other companies which are neither quoted on stock exchanges nor the latest balance sheet is available are valued at rupee one per company.
- b. Debentures and bonds are valued at market price, if quoted, otherwise at appropriate YTM published by FIMMDA / PDAI.
- c. Treasury Bills and Commercial papers are valued at carrying cost.
- d. Units of Mutual funds are valued at market price, if quoted, otherwise at lower of re-purchase price or net asset value.

Profit and loss on sale of investment from AFS and HFT category is recognized in profit and loss account. However, in case of profit on sale of investment under HTM category, an equivalent amount of profit is appropriated to capital reserve account.

## 4. Advances

- i. Classification of Advances and Provisions thereof have been made as per the Income Recognition and Asset Classification norms formulated by the RBI viz, Standard, Sub-Standard, Doubtful and Loss Assets and accordingly requisite provisions have been made thereof.
- ii. Hitherto, the Bank has been providing for Sub-Standard Assets uniformly at 20% but for this year Bank has changed the policy and has provided 10% uniformly and additional 10% on unsecured portion which is in conformity with RBI prudential norms.
- iii. Advances are shown net of provisions required for NPA's. Provisions for advances classified as Standard Assets is clubbed with other liabilities – Schedule 5 (V).

## Schedule 17 Principal Accounting Policies ...

### 5. Fixed Assets

- a. Premises and other fixed assets are accounted for at historical cost.
- b. Premises include free hold as well as lease hold properties.
- c. Premises include capital work in progress.
- d. Depreciation is provided on diminishing balance method in accordance with the provisions of Income Tax Act 1961, as per the rates prescribed in Income Tax Rules given below:

Heads	Rates
A. Furniture & Fixtures (including electric fittings)	10%
B. Wooden partitions	100%
C. Vehicles	15%
D. Plant & Machinery	15%
E. Premises – i. Office Premises	10%
ii. Residential & STC buildings	5%

- e. However, depreciation on computers (including ATMs) along with major softwares is charged at the rate of 33.33% on straight-line method as per the RBI guidelines for the full year even if the computers (including ATMs) have been purchased during the second half. In respect of Computer software (not forming integral part of computers) has been charged fully in the year of purchase.
- f. Depreciation on additions to Assets made upto 30th September of the year is provided for at full rates and on additions thereafter at 50% of the rates. No depreciation is provided on assets sold / discarded during the year.
- g. Leasehold properties are amortised over the period of lease.

### 6. Employees Benefits

- i. In respect of employees who have opted for provident fund scheme, matching contribution is made. For others who have opted for pension scheme, contribution to pension fund is made based on actuarial valuation.
- ii. Contribution to gratuity fund is made on the basis of actuarial valuation at the year-end.
- iii. Contribution to Leave Encashment Fund is made by spreading the liability over the period of future average service of the current employees on a straight-line method as per actuarial valuation.

### 7. Voluntary Retirement Scheme Expenditure (VRS)

The expenditure incurred on VRS is amortised equally over a period of five years in conformity with the RBI guidelines.

### 8. Income Recognition and Expenditure booking

Income and expenditure is accounted for on accrual basis unless otherwise stated.

- a. Interest and other income on advances / investments classified as Non Performing Assets / investments are recognized to the extent realised in accordance with guidelines issued by the Reserve Bank of India.
- b. Recovery in Non Performing Assets is appropriated first towards the interest and there after towards principal / arrears of asset.
- c. Interest is paid on overdue deposits as and when such deposits are renewed.
- d. Fee, commission (other than insurance commission), exchange, locker rent and insurance claims are recognised on realisation basis.
- e. Income from interest on income tax / other tax refunds is accounted for on the basis of orders passed by the Competent Authorities.
- f. Unforeseen income / expenses are accounted for in the year of receipt / payment.

### 9. Net Profit – The net profit is disclosed in the profit and loss account after providing for:

- i. Income and Fringe Benefit Tax.
- ii. Standard Assets, Non Performing Advances / Investments as per RBI guidelines.
- iii. Depreciation / amortization on Investments.
- iv. Transfer to contingency reserves.
- v. Other usual and necessary provisions.

### 10. Contingency Funds

Contingency funds have been grouped in the Balance Sheet under the head “Other Liabilities and Provisions”.

## Schedule 18 Notes on Accounts

1. Reconciliation / adjustment of inter bank / inter branch transactions, branch suspense and sundry deposits is in progress on an ongoing basis. The impact, in the opinion of the management of the unreconciled entries, if any, on the financial statements would not be material.
2. Tax paid in advance / tax deducted at source includes amount adjusted by Income Tax Department in respect of various disputed demands. Based on the favorable appellate orders and interpretation of law, no further provision has been considered by the management in respect of these disputed demands.
3. Fixed Assets
  - i. Documentation formalities are pending in respect of certain immovable properties held by the Bank valued at Rs 3.03 Crores (Previous year Rs 1.63 Crores).
  - ii. The Bank has also acquired certain fixed assets generating cash, parked under respective heads, for the promotion and development of its business.
  - iii. The Bank has been consistently following the charging of depreciation on fixed assets on diminishing balance as per the rates prescribed in Income Tax Rules as disclosed in para 5 of Schedule 17, Principal Accounting Policies in preference to rates prescribed in Schedule XIV read with Section 205 of the Companies Act, 1956. It is higher in totality as compared to rates prescribed in Schedule XIV of the Companies Act, 1956, in view of the fact that in Companies Act there is an option to charge depreciation on straight-line method. However, the depreciation on computers (including ATMs) along with major softwares has been computed at the rate of 33.33% on straight-line method as per RBI guidelines.
  - iv. Depreciation on Banks property includes amortisation in respect of leased properties amounting to Rs 0.22 Crores.
4. Capital

Particulars	31.03.2006	31.03.2005
CRAR (%)	12.14%	15.15%
CRAR – Tier I capital (%)	11.76%	12.48%
CRAR – Tier II capital (%)	0.38%	2.67%
Amount of subordinated debt raised as Tier II capital	Nil	Nil

Government of Jammu and Kashmir holds 53.17% of equity shares of the Bank (previous year 53.17%)

### INVESTMENTS

5. a. In conformity with the RBI guidelines issued vide circular number DBOD.No.BP.BC.38 / 21.04.141 / 2005-06 dated 10-10-2005, the Bank has complied with and maintained capital charge by more than the required limit of 9% of the risk weighted assets for both credit risks and market risks for both HFT (along with other item of open foreign exchange position limit) and AFS category as on March 31,2006, accordingly the bank has appropriated the entire balance in the Investment Fluctuation Reserve of Rs 252.06 Crores to Revenue and Other Reserves.
  - b. In consequence thereof, the balance outstanding in Profit and Loss account at Rs 107.94 crores because of drawn down from Investment Fluctuation Reserve (IFR) last year has been appropriated to Revenue and Other Reserves.
  - c. In view of this, the necessary entries of transfers to reserves and taxes, as per directions of RBI vide letter no. DO.DBS / DO / BMD111 / 7315 / 15.01.063 / 2005-06 dated 14th November 2005 to correct the entry of utilisation of IFR passed in March 2005, are not required to be passed.
6. The bank has appropriated Rs 2.46 Crores (Previous year Rs 6.84 Crores) being an amount equivalent to the profit on sale of HTM Category Securities to “Capital Reserve Account”.
7. The Bank is yet to receive scrips / Certificates / Bonds of Rs 6.18 Crores. It includes Rs 3.88 Crores and Rs 2.30 Crores being equity participation in Jammu Rural Bank and Kamraz Rural Bank respectively.
8. The total Investment of the Bank in the Joint Venture (Metlife India Insurance Co. Pvt. Ltd.) stood at Rs 58.75 Crores. The management has changed its perception and does not consider it necessary to provide for the diminution in value of these shares on the fact that this diminution is purely temporary, JVC shall set off the accumulated losses in 2008-09, solvency ratio of the JVC for the period 2006-2010 is estimated to be above 1.50 and in view of the safeguard clauses, provided in Shareholders agreement relating to transfer / sale of Bank’s share in JVC. Accordingly, the Bank has also recalled the earlier provision of Rs 7.90 crores in respect of this Investment.

Schedule 18 Notes on Accounts ...

9. Details of investments		(Rs in Crores)	
Items	31.03.2006	31.03.2005	
1. Value of investments			
i. Gross value of investments			
a. In India	9068.60	9103.33	
b. Outside India	Nil	Nil	
ii. Provision for depreciation			
a. In India	43.94	57.33	
b. Outside India	Nil	Nil	
iii. Provision for amortisation of securities			
a. In India	22.32	14.11	
b. Outside India	Nil	Nil	
iv. Net value of investments			
a. In India	9002.34	9031.90	
b. Outside India	Nil	Nil	
2. Movement of provision held towards depreciation on investments			
i. Opening balance	57.33	17.64	
ii. Add: Provisions made during the year	60.48	181.17	
iii. Less: Write-off / write back of excess provisions during the year	73.87	141.48	
iv. Closing balance	43.94	57.33	

10. The participation of Repo Transactions is as under:					(Rs in Crores)
Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	Outstanding as on 31.03.2006	
Securities sold under repos	0.00	0.00	0.00	0.00	
Securities purchased under reverse repos	0.00	1825.00	467.44	1825.00	

11. Non-SLR Investment portfolio

11.1 Issuer Composition of Non SLR Investments						(Rs in Crores)
Issuer	Amount	Extent of Private Placement grade	Extent of below Investment	Extent of unrated Securities	Extent of unlisted Securities	
1. PSUs	413.86	0.00	0.00	7.14	50.14	
2. FIs	1041.80	15.00	0.00	278.80	336.98	
3. Banks	511.60	0.00	0.00	43.59	12.77	
4. Private Corporates	593.74	215.36	0.00	118.71	174.46	
5. Subsidiaries / Joint Venture	68.57	68.57	0.00	0.00	68.57	
6. Others	23.45	0.00	0.00	0.00	23.45	
Total	2653.02	298.93	0.00	448.24	666.37	
7. Provision held towards depreciation	43.94	0.00	0.00	0.00	0.00	
8. Total	<b>2609.08</b>	<b>298.93</b>	<b>0.00</b>	<b>448.24</b>	<b>666.37</b>	

## Schedule 18 Notes on Accounts ...

The Bank's investment in unlisted securities as on 31-03-2006 is 25.12% (Previous year 24.11%) as against the maximum stipulated limit of 10% of its total investment in Non-SLR securities.

11.2 Non-SLR Non-performing investments (Rs In Crores)

Particulars	Amount
Opening balance	124.85
Additions during the year	0.00
Reductions during the year	10.88
Closing balance	113.97
Total provisions held (including floating provision of Rs 2.76 crores)	<b>91.45</b>

11.3 The value of investments under three categories viz., Held for Trading, Available for sale and Held to maturity are as under:

(Rs in Crores)

Particulars	As on 31.03.2006				As on 31.03.2005			
	HFT	AFS	HTM	Total	HFT	AFS	HTM	Total
Government securities	0.00	806.94	3718.30	4525.24	0.00	1899.06	3885.69	5784.75
Other approved securities	0.00	0.00	43.02	43.02	0.00	0.00	51.25	51.25
Shares (Equity & Pref.)	0.00	15.36	39.50	54.86	0.00	27.25	43.46	70.71
Debentures & bonds	0.00	1010.38	992.14	2002.52	2.15	1683.78	1234.07	2920.00
Subsidiaries & joint venture	0.00	0.00	68.57	68.57	0.00	0.00	68.75	68.75
Others	0.00	483.13	0.00	483.13	0.00	136.44	0.00	136.44
Subtotal	0.00	2315.81	4861.53	7177.34	2.15	3746.53	5283.22	9031.90
Reverse repo	0.00	1825.00	0.00	1825.00	0.00	0.00	0.00	0.00
Grand total	<b>0.00</b>	<b>4140.81</b>	<b>4861.53</b>	<b>9002.34</b>	<b>2.15</b>	<b>3746.53</b>	<b>5283.22</b>	<b>9031.90</b>

## 12 Derivatives

12.1 No Forward rate agreements / interest rate Swaps are undertaken by the bank during the year.

12.2 The bank has not entered into exchange traded interest rate derivatives transactions during the year

12.3 Disclosures on Risk exposures in derivatives

### QUALITATIVE DISCLOSURES

The only derivatives traded by the Bank in the foreign exchange market are forward contracts. Forward contracts are being used to hedge / cover the exposure in foreign exchange arising out of merchant transactions and trading positions.

To cover the risks arising out of above derivatives, various limits like AGL, IGL and Stop loss have been prescribed in the Trading Policy of the Bank which are monitored through gap analysis and VaR.

Outstanding forward exchange contracts are revalued at the exchange rates for appropriate maturity rates as announced by FEDAI at the year-end exchange rates and the resultant gain / loss is taken to revenue.

### QUANTITATIVE DISCLOSURES

(Rs in Crores)

Particulars	Currency derivatives	Interest rate derivatives
i. Derivatives (Notional Principal Amount)		
a. For hedging	Nil	Nil
b. For trading	Nil	Nil
ii. Marked to market positions [1]		
a. Asset (+)	Nil	Nil
b. Liability (-)	Nil	Nil

## Schedule 18 Notes on Accounts ...

iii.	Credit exposure [2]	Nil	Nil
iv.	Likely impact of one percentage change in interest rate (100* PV01)		
	a. on hedging derivatives	Nil	Nil
	b. on trading derivatives	Nil	Nil
v.	Maximum & Minimum of 100* PV01 observed during the year		
	a. on hedging	Nil	Nil
	b. on trading	Nil	Nil

### 13. Asset Quality

#### 13.1 Non Performing Asset

(Rs In crores)

Particulars	31.03.2006	31.03.2005
Net NPAs to Net Advances (%)	0.92%	1.41%
Movement in Gross NPAs:		
a. Opening Balance	317.25	286.51
b. Additions during the year	157.95	150.35
c. Reductions during the year	105.01	119.61
d. Closing balance	370.19	317.25
Movement in Net NPAs:		
a. Opening Balance	162.93	137.35
b. Additions during the year	75.95	105.02
c. Reductions during the year	105.01	79.44
d. Closing balance (after reducing interest suspense amounting to Rs 0.73 crores)	133.87	162.93
Movement of Provision for NPAs (excluding provision on standard assets):		
a. Opening Balance	153.59	147.68
b. Add / Transfer Provision made during the year	**82.00	*46.08
c. Less write-off	0.00	40.17
d. Closing Balance	**235.59	*153.59

\* Including floating provision of Rs 14.67 crores.

\*\* Including floating provision of Rs 52.90 crores.

#### 13.2 Details of Loan assets subjected to Restructuring

(Rs In crores)

Particulars	31.03.2006		31.03.2005	
	No. of Accounts	Amount	No. of Accounts	Amount
a. Total amount of loan Restructured				
i. Standard assets restructured	10	22.92	12	84.92
ii. Sub-Standards assets Restructured	2	6.72	Nil	Nil
iii. Doubtful assets restructured	Nil	Nil	Nil	Nil
Total	12	29.64	12	84.92
b. Corporate Debt Restructuring				
i. Standard Assets subjected to CDR	Nil	Nil	2	67.60
ii. Sub-standard Assets subject to CDR	Nil	Nil	Nil	Nil
iii. Doubtful Assets subject to CDR	Nil	Nil	Nil	Nil
Total	Nil	Nil	2	67.60

## Schedule 18 Notes on Accounts ...

In the opinion of management there is no interest sacrifice in respect of debts restructured, during the current year, thereby no provision of the same is required.

14. Details of Financial Assets Sold to Securitisation / Reconstruction Company for Asset Reconstruction.  
The Bank has not securitised any Assets during the year.

15. Provisions on standard Assets (Rs In crores)

Particulars	31.03.2006	31.03.2005
Provision towards Standard Assets	55.47	30.32

Provision @ 0.40% on standard assets (excluding SME & agricultural advances) and @ 0.25% on standard SME & agricultural advances has been arrived at Rs 55.47 Crores against which the bank is already holding provision of Rs 30.32 Crores. Hence provision of Rs 25.15 Crores has been made during the year.

16. Business Ratios

Particulars	31.03.2006	31.03.2005
i. Interest income as a percentage to working fund. *	7.60%	7.64%
ii. Non-Interest income as a percentage to working funds. *	0.59%	0.47%
iii. Operating profit as a percentage to working funds. *	2.01%	1.82%
iv. Return on Assets. **	0.67%	0.47%
v. Business (deposits plus advances) per employee***	5.16 crores	4.35 crores
vi. Profit per employee	0.03 crores	0.02 crores

\* Working funds are the average of total of assets as reported to RBI in Form X.

\*\* Assets are the total assets as at the close of the year.

\*\*\* Deposits (other than inter-bank deposits) & Gross Advances are as at the close of the year.

17. Asset Liability Management

- i. Maturity pattern of certain items of assets and liabilities as on 31.03.2006 (Rs In crores)

	1 to 14 days	15 to 28 days	29 days & upto 3 months	Over 3 months & upto 6 months	Over 6 months & upto 1 year	Over 1 year & upto 3 years	Over 3 years & upto 5 years	Over 5 years	Total
Deposits	2518.86	692.13	4075.94	1682.58	756.40	10499.65	2956.79	302.28	23484.63
Borrowings	0.00	0.00	27.02	218.11	4.20	13.62	0.98	0.00	263.93
Investments	2862.54	375.16	972.35	151.47	63.45	811.79	717.00	4398.11	10351.87
Advances	1158.49	429.39	1542.72	741.58	1445.01	6679.27	1347.34	1139.30	14483.10

- ii. Details of Foreign currency Assets / Liabilities (Maturity Pattern) as on 31.03.2006

### LIABILITIES

(Rs in Crores)

	1 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Above 1 year	Total
USD	376.60	210.51	567.17	372.32	53.26	0.00	1579.86
EURO	12.80	11.65	16.60	6.62	2.24	0.00	49.91
GBP	6.97	3.11	0.00	0.00	0.00	0.00	10.08
J.YEN	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	396.37	225.27	583.77	378.94	55.50	0.00	1639.85

## Schedule 18 Notes on Accounts ...

ASSETS							(Rs In crores)
	1 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Above 1 year	Total
USD	357.63	203.45	548.50	395.44	53.94	0.00	1558.97
EURO	9.02	8.62	20.41	9.59	2.24	0.00	49.88
GBP	3.64	4.50	0.93	0.86	0.40	0.00	10.34
J.YEN	0.20	0.00	0.00	0.00	0.00	0.00	0.20
<b>Total</b>	<b>370.49</b>	<b>216.57</b>	<b>569.84</b>	<b>405.90</b>	<b>56.58</b>	<b>0.00</b>	<b>1619.39</b>

The data on ALM has been compiled on the basis of information furnished by the branches / offices. In cases where the authenticity could not be verified, the computation has been done on the basis of assumption and estimates made by the management and relied upon by the auditors.

### 18. Lending to Sensitive Sector

#### 18.1 Exposure to Real Estate Sector (Rs In Crores)

Particulars	31.03.2006	31.03.2005
1. Direct exposure		
i. Residential mortgages		
a. Individual housing loans upto Rs 15 lakhs	447.36	421.38
b. Others	54.27	
Lending's fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented		
ii. Commercial real estate	1039.60	732.32
Lending's secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc). Exposure would also include non-fund based (NFB) limits.		
iii. Investment in mortgage backed securities and other securitised exposures		
a. Residential	Nil	Nil
b. Commercial real estate	Nil	Nil
2. Indirect exposure		
(Fund based & non fund based exposure on National Housing Bank and housing finance companies)	645.90	633.63

#### 18.2 Exposure to Capital Market (Rs In Crores)

Particulars	31.03.2006	31.03.2005
1. Investments made in equity shares	89.19	33.57
2. Investments in bonds / convertible debentures	0.00	0.00
3. Investments in units of equity-oriented mutual funds	66.00	14.50
4. Advances against shares to individuals for investments in equity shares (including IPOs / ESOPS), bonds and debentures, units of equity oriented mutual funds	0.11	0.07
5. Secured and unsecured advances to stock brokers and guarantees issued on behalf of stockbrokers and market makers	32.61	0.13
Total (1+2+3+4+5)	187.91	48.27
6. Of 5 above, the total finance extended to stock brokers for margin trading	Nil	Nil

Schedule 18 Notes on Accounts ...

19. Advances to Commodities Sector (Rs In Crores)

Particulars	31.03.2006	31.03.2005
1. Cash crop	8.49	4.05
2. Edible oils	40.65	37.48
3. Agriculture produce	50.51	30.73
4. Other sensitive commodities	47.61	19.09
Total	147.26	91.35

20. Risk category wise country exposure (Rs in Crores)

Category	Risk Category	Exposure (net) as at March 2006	Provision held as at March 2006	Exposure (net) (net) as at March 2005	Provision held as at March 2005
A1	Insignificant	18.96	Nil	12.47	Nil
A2	Low	1.38	Nil	1.04	Nil
B1	Moderate	Nil	Nil	Nil	Nil
B2	High	Nil	Nil	Nil	Nil
C1	Very high	Nil	Nil	Nil	Nil
C2	Restricted	Nil	Nil	Nil	Nil
D	Off-Credit	Nil	Nil	Nil	Nil
	<b>Total</b>	<b>20.33</b>	<b>Nil</b>	<b>13.51</b>	<b>Nil</b>

21. Details of Single borrower limit, Group borrower limit exceeded by the bank.

The Bank has not exceeded the prudential credit exposure limit in respect of any account.

22. Miscellaneous

22.1 Details of provisions (Rs In Crores)

Particulars	31.03.2006	31.03.2005
Tax expense		
i. Current tax	77.50	21.00
ii. Deferred tax liability / (asset)	(1.21)	(0.14)
iii. Fringe benefit tax	8.00	0.00
Provision against NPAs	82.00	37.73
Provision for standard assets	25.15	0.00
Provision for depreciation on investments	60.48	181.17
Provision for amortisation of securities	22.32	14.11
Provision for frauds and embezzlements	0.20	0.42
Provision for Debts Restructured (investments only)	1.52	0.00
Provision for Non performing Investment *	(1.52)	0.00
Other provisions & contingencies	0.36	0.22
Total	274.80	254.51

\*Floating provision utilized, balance in floating provision Rs 2.76 crores.

22.2 Penalties imposed by RBI

Penalty of Rs 5.00 lakhs was imposed by RBI during the financial year 2005-06 for breach of letter of credit norms.

## Schedule 18 Notes on Accounts ...

23. Information in respect of Accounting Standards issued by the Institute of Chartered Accountants of India.
- 23.1 Accounting Standard 5 – Net profit or loss for the period, prior period items and changes in accounting policies  
There are no material Prior Period items included in Profit & Loss Account required to be disclosed as per Accounting Standard – 5 read with RBI Guidelines.
- 23.2 Accounting Standard 9 – Revenue Recognition  
There are no material items of income, which are required to be disclosed as per Accounting Standard – 9, read with RBI guidelines.
- 23.3 Accounting Standard 15 – Retirement benefits
- Total VRS liability of the Bank amounting to Rs 39.83 Crores has been accounted for under Deferred Revenue Expenditure to be amortized equally in five years in terms of RBI guidelines. It being the second year the sum of Rs 7.96 Crores has been charged to Profit & loss account. Balance amount of Rs 23.91 Crores is included in Schedule 11 (Other Assets – Others).
  - Liability for Gratuity and Pension has been provided for based on actuarial valuation.
  - Hitherto, the Bank had been charging the actual payment of leave encashment for the employees retiring during the particular year to Revenue. However, for this year the payment has been debited to leave encashment fund. The Bank has started contributing to this fund from year 2003-04 on an adhoc basis and contributed Rs 2 crore and Rs 2.65 crore each in year 2003-04 and 2004-05 respectively, whereas for this year the bank has contributed to this fund as per actuarial valuation. Accordingly, a sum of Rs 3.40 crore has been provided towards Leave Encashment Fund, which has been worked out by spreading over the liability over a period of 18 years, the future average service of the current employees, in conformity with Para 23 of AS-15. The impact in change has resulted into additional provision of Rs 0.35 crores.
- 23.4 Accounting Standard 17 – Segment Reporting
- The Bank has recognized business segment as its primary reportable segment under AS-17 classified into treasury, other banking and residual operations and necessary disclosure is given below:

### Segment-wise Revenue, Results and Capital Employed

(Rs In Crores)

Description	March 2006	March 2005
<b>A. SEGMENT REVENUE (Income)</b>		
i. Treasury Operations	620.74	670.73
ii. Other Banking Operations	1643.43	1497.53
iii. Residual Operations	2.48	2.30
iv. Un-allocable Income	110.93	68.15
<b>Total</b>	<b>2377.57</b>	<b>2238.71</b>
Less Inter Segment Revenue	538.14	593.34
<b>Net Income from Operations</b>	<b>1839.43</b>	<b>1645.37</b>
<b>B. SEGMENT RESULTS (Profit before tax)</b>		
i. Treasury Operations	(11.97)	(103.03)
ii. Other Banking Operations	322.85	328.59
iii. Residual Operations	0.61	0.31
<b>Total</b>	<b>311.50</b>	<b>225.87</b>
Less un-allocable expenses (Net of un-allocable income)	50.36	89.94
<b>Total Profit before tax</b>	<b>261.13</b>	<b>135.93</b>
<b>C. SEGMENT ASSETS</b>		
i. Treasury Operations	12015.42	12194.82
ii. Other Banking Operations	13473.57	11150.03
iii. Residual Operations	2.02	1.93
iv. Un-allocated	957.97	1076.05
<b>Total</b>	<b>26448.98</b>	<b>24422.83</b>

Schedule 18 Notes on Accounts ...

(Rs In Crores)

Description	March 2006	March 2005
<b>D. SEGMENT LIABILITIES</b>		
i. Treasury Operations	11075.42	11255.34
ii. Other Banking Operations	13254.53	11114.50
iii. Residual Operations	0.01	0.04
iv. Un-allocated	319.55	387.55
<b>Total</b>	<b>24649.51</b>	<b>22757.43</b>
<b>E. CAPITAL EMPLOYED</b>		
i. Treasury Operations	940.01	939.48
ii. Other Banking Operations	219.03	35.53
iii. Residual Operations	2.01	1.89
iv. Un-allocated	638.42	688.50
<b>Total</b>	<b>1799.47</b>	<b>1665.40</b>

b. As the Bank does not have any overseas branch, there is no requirement as to reporting of geographical segment

23.5 Accounting Standard 18 – Related party disclosures (Figures as at 31.03.2006 Rs in Crores)

Items / Related Party	Kamraz Rural Bank (Associates)	Jammu Rural Bank (Associates)	MetLife India (Joint Venture)	KMP Haseeb A Drabu (Chairman) from 08.6.05	KMP M Y Khan (Chairman) upto 07.06.05	KMP A R Fazili (ED) 09.06.05	Son of KMP (ED) Zubair Fazili
Deposits	124.87	301.34	7.28	—	Nil	—	—
Advances	0.04	0.00	Nil	—	Nil	0.04	0.02
Investments	4.34	5.48	58.75	—	Nil	—	—
Interest Paid	5.28	17.77	Nil	—	Nil	—	—
Interest / Commission Received	0.008	Nil	3.98	Nil	—	0.002	0.004
Salary	NA	NA	NA	0.23 (Previous year: Nil)	0.03 (Previous year: 0.14)	0.10 (Previous year: Nil)	—

Bank is holding 25% of Share Capital in MetLife India and 35% in Jammu Rural Bank & Kamraz Rural Bank respectively.

K.M.P (Key Management Personnel)

23.6 Accounting Standard 20 – Earning per share (Rs In Crores)

Particulars	31.03.2006	31.03.2005
Net Profit available to Equity Share Holders	176.84	115.07
Weighted Average No. of Equity Shares	48477702	48499482*
Basic / diluted Earning per share	36.48	23.73
* i. No. of Equity Shares outstanding on 1st April 2004		
ii. 21900 shares were forfeited on 29.03.2005		
iii. Weighted average no. of shares (48499602*363 / 365 + 48477702*2 / 365)	NA	48499482

## Schedule 18 Notes on Accounts ...

### 23.7 ACCOUNTING STANDARD 22 – Accounting for taxes on income

The Bank has accounted for Income Tax in compliance with Accounting Standard 22 accordingly deferred Tax assets and liabilities are recognized.

(Rs In thousands)

Timing Difference	DTA	DTL
Amortisation of Expenses – Section 35D	750	—
Depreciation on Assets	19245	—
Leave encashment Section 43B for the year	25728	—
Leave encashment Section 43B for the earlier year	43000	—
Net DTA	88723	—
Tax Impact (It includes below the line Rs 14474)	29864	—

### 23.8 Accounting Standard 27 – Joint Venture

The company has a joint venture with MetLife India Insurance Company Pvt. Ltd.

The relevant disclosures as per AS-27 are given hereunder:

<b>Name</b>	MetLife India Insurance Company Pvt. Ltd. (Company incorporated in India)
<b>Address</b>	“Brigade Seshamahal” 5, Vani Vilas Road Basavanagudi Bangalore 560004, India
<b>Contingent Liabilities</b>	Nil
<b>Capital Commitment</b>	Nil
<b>Proportion of ownership interest</b>	25%

### 23.9 Accounting Standard 28 – Impairment of Assets

Majority of Fixed Assets of the Bank are considered as Corporate Assets and not cash generating assets and in the opinion of Management there is no material impairment in these Fixed Assets. Regarding balance Fixed Assets generating cash there is no material impairment. As such no provision is required as per AS-28 issued by ICAI.

### 23.10 Accounting Standard 29- Provisions against Contingent Liabilities and contingent Assets

In respect of Contingent Liabilities under each class shown as per Schedule 12, in the opinion of the Management, the possibility of any out flow in settlement is remote hence no provision is required to settle the obligations.

## 24. Other Disclosures

### 24.1 Foreign Exchange

a. The net funded exposure of the Bank in respect of Foreign Exchange transactions with each country is within 1% of the Total Assets of the Bank and hence no Provision and Disclosure is required to be made as per the RBI Circular No. 96 / 21.04.103 / 2003 dated: 17.06.2004.

b. Claims pending with ECGCI amounts to Rs 6.17 Crores (Previous year Rs 7.30 Crores).

24.2 The Bank, in conformity with RBI prudential norms, has changed the provisioning rates on Sub-Standard Assets from 20% to 10% uniformly and additional 10% on unsecured portion. The impact in change has resulted into less provisionally by Rs 9.78 crores.

## Schedule 18 Notes on Accounts ...

25. The principal accounting policies and Notes on Accounts (Schedule 17) form an integral part of these accounts.
26. Previous year figures have been regrouped / rearranged where ever necessary and possible to conform to current year figures.

Sd/- <b>(Haseeb A Drabu)</b> Chairman	Sd/- <b>(M S Verma)</b> Director	Sd/- <b>(G P Gupta)</b> Director	Sd/- <b>(B B Vyas, IAS)</b> Director
Sd/- <b>(Abdul Rauf Fazili)</b> Executive Director	Sd/- <b>( M Yaseen Mir)</b> Director	Sd/- <b>(B L Dogra)</b> Director	Sd/- <b>(Umar Khurshid Trambo)</b> Director
Sd/- <b>(Mushtaq Ahmad)</b> Executive President	Sd/- <b>(Abdul Majid Mir)</b> General Manager	Sd/- <b>(Parvez Ahmed)</b> Company Secretary	

Place : Srinagar  
Dated : 19th May, 2006

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In terms of our Report of even date annexed

	<b>For Gupta Gupta &amp; Associates</b> Chartered Accountants	<b>For Gupta Sharma &amp; Associates</b> Chartered Accountants	<b>For Baweja &amp; Kaul</b> Chartered Accountants
Place : Srinagar Dated : 19th May, 2006	Sd/- <b>(R K Gupta)</b> Partner M. No. 85074	Sd/- <b>(Satyam Gupta)</b> Partner M. No. 504340	Sd/- <b>(R K Mahapatra)</b> Partner M. No. 94348

# Part IV of Schedule VI to the Companies Act, 1956

## I. REGISTRATION DETAILS

Registration No.	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="4"/> <input type="text" value="6"/>	State Code	<input type="text" value="0"/> <input type="text" value="7"/>
Balance Sheet Date	<input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="3"/> <input type="text" value="2"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="6"/>	Date	Month Year

## II. CAPITAL RAISED DURING THE YEAR (AMOUNT IN RS 000'S)

Public Issue	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>	Rights Issue	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>
Bonus Issue	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>	Private Placement	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>

## III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMOUNT IN RS 000'S)

Total Liabilities	<input type="text" value="2"/> <input type="text" value="6"/> <input type="text" value="4"/> <input type="text" value="4"/> <input type="text" value="8"/> <input type="text" value="9"/> <input type="text" value="8"/> <input type="text" value="2"/> <input type="text" value="2"/>	Total Assets	<input type="text" value="2"/> <input type="text" value="6"/> <input type="text" value="4"/> <input type="text" value="4"/> <input type="text" value="8"/> <input type="text" value="9"/> <input type="text" value="8"/> <input type="text" value="2"/> <input type="text" value="2"/>
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### SOURCES OF FUNDS

Paid-up Capital	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="4"/> <input type="text" value="8"/> <input type="text" value="4"/> <input type="text" value="9"/> <input type="text" value="2"/> <input type="text" value="1"/>	Reserves & Surplus	<input type="text" value="1"/> <input type="text" value="7"/> <input type="text" value="5"/> <input type="text" value="0"/> <input type="text" value="9"/> <input type="text" value="7"/> <input type="text" value="9"/> <input type="text" value="4"/>
Secured Loans	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>	Unsecured Loans	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="6"/> <input type="text" value="3"/> <input type="text" value="9"/> <input type="text" value="3"/> <input type="text" value="4"/> <input type="text" value="7"/>
Deposits	<input type="text" value="2"/> <input type="text" value="3"/> <input type="text" value="4"/> <input type="text" value="8"/> <input type="text" value="4"/> <input type="text" value="6"/> <input type="text" value="3"/> <input type="text" value="7"/> <input type="text" value="1"/>		

### APPLICATION OF FUNDS

Net Fixed Assets	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="9"/> <input type="text" value="4"/> <input type="text" value="7"/> <input type="text" value="1"/> <input type="text" value="6"/> <input type="text" value="8"/>	Investments	<input type="text" value="9"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="2"/> <input type="text" value="3"/> <input type="text" value="4"/> <input type="text" value="0"/> <input type="text" value="6"/>
Advances	<input type="text" value="1"/> <input type="text" value="4"/> <input type="text" value="4"/> <input type="text" value="8"/> <input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="5"/> <input type="text" value="1"/>	Miscellaneous Expenditure	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>
Net Current Assets	<input type="text" value="1"/> <input type="text" value="8"/> <input type="text" value="6"/> <input type="text" value="7"/> <input type="text" value="8"/> <input type="text" value="8"/> <input type="text" value="0"/> <input type="text" value="8"/>		
Accumulated Losses	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>		

## IV. PERFORMANCE OF THE BANK (AMOUNT IN RS 000'S)

Total Income	<input type="text" value="1"/> <input type="text" value="8"/> <input type="text" value="3"/> <input type="text" value="9"/> <input type="text" value="4"/> <input type="text" value="2"/> <input type="text" value="9"/> <input type="text" value="5"/>	Total Expenditure	<input type="text" value="1"/> <input type="text" value="5"/> <input type="text" value="7"/> <input type="text" value="8"/> <input type="text" value="2"/> <input type="text" value="9"/> <input type="text" value="7"/> <input type="text" value="6"/>
Profit before Tax	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="6"/> <input type="text" value="1"/> <input type="text" value="1"/> <input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="9"/>	Profit after Tax	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="7"/> <input type="text" value="6"/> <input type="text" value="8"/> <input type="text" value="4"/> <input type="text" value="3"/> <input type="text" value="4"/>
Earnings per Share (in Rs)	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="6"/> <input type="text" value="."/> <input type="text" value="4"/> <input type="text" value="8"/>	Dividend Rate (%)*	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="8"/> <input type="text" value="0"/>

## V. GENERIC NAMES OF PRINCIPAL PRODUCTS / SERVICES (AS PER MONETARY TERMS)

Item Code No. (ITC Code)	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>
Product Description	<input type="text" value="B"/> <input type="text" value="A"/> <input type="text" value="N"/> <input type="text" value="K"/> <input type="text" value="I"/> <input type="text" value="N"/> <input type="text" value="G"/> <input type="text" value="S"/> <input type="text" value="E"/> <input type="text" value="R"/> <input type="text" value="V"/> <input type="text" value="I"/> <input type="text" value="C"/> <input type="text" value="E"/> <input type="text" value="S"/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/>

\* Subject to the approval of shareholders

# Cash flow statement for the year ended 31st March, 2006

	Year ended 31.03.2006 (Rs '000, omitted)	Year ended 31.03.2005 (Rs '000, omitted)
Cash flow from operating activities	(8,05,54,27)	3,48,45,70
Cash flow from investing activities	(31,24,32)	(49,74,47)
Cash flow from financing activities	(54,07,29)	(37,19,89)
Net change in cash and cash equivalents	(8,90,85,88)	2,61,51,34
Cash and cash equivalents at the beginning of the year	31,78,26,62	29,16,75,28
Cash and cash equivalents at		
The end of the year	22,87,40,74	31,78,26,62
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
a. Interest received during the year from Advances / Investments	17,64,50,09	15,53,97,79
b. Other Incomes	1,33,17,72	82,03,16
c. Interest paid on deposits etc.	(9,73,68,84)	(9,44,78,72)
d. Operating expenses including Provisioning & Contingencies	(5,35,77,05)	(5,42,33,42)
e. Adjustment for depreciation	38,92,49	43,42,11
Total (a-e)	<b>4,27,14,41</b>	<b>1,92,30,92</b>
f. Deposits	18,39,66,44	29,83,58,89
g. Borrowings	(55,54,72)	22,47,16
h. Investments	295,660	(6,38,13,17)
i. Advances	(29,65,96,38)	(22,32,20,51)
j. Other liabilities & provisions	51,63,43	1,82,40,65
k. Other Assets	(37,64,25)	(1,19,94,39)
Total (a-k)	<b>(7,11,14,47)</b>	<b>3,90,49,55</b>
l. Less Tax Paid	94,39,80	42,03,85
Total (a-l)	<b>(8,05,54,27)</b>	<b>3,48,45,70</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
a. Fixed Assets	(31,24,32)	(49,74,47)
b. Investment in Sponsored Institutions.	—	—
Total (a-b)	<b>(31,24,32)</b>	<b>(49,74,47)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
a. Share Capital	—	24,66
b. Share Premium	—	13,38
c. Dividend Paid	(43,85,04)	(27,35,68)
d. Interest Paid on Subordinate Debt	(10,22,25)	(10,22,25)
Total (a-d)	<b>(54,07,29)</b>	<b>(37,19,89)</b>
<b>D. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
a. Cash in hand & Balance with RBI	16,75,88,50	15,34,59,53
b. Balance with Banks & Money at Call & Short Notice	15,02,38,12	13,82,15,75
Total (a-b)	<b>31,78,26,62</b>	<b>29,16,75,28</b>

## Cash flow statement for the year ended 31st March, 2006 ...

	Year ended 31.03.2006 (Rs '000, omitted)	Year ended 31.03.2005 (Rs '000, omitted)
<b>E. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		
a. Cash in hand & Balance with RBI	9,37,88,07	16,75,88,50
b. Balance with Banks & Money at Call & Short Notice	13,49,52,67	15,02,38,12
<b>Total (a-b)</b>	<b>22,87,40,74</b>	<b>31,78,26,62</b>

Note: This Statement has been prepared in accordance with direct method.

Sd/- <b>(Haseeb A Drabu)</b> Chairman	Sd/- <b>(M S Verma)</b> Director	Sd/- <b>(G P Gupta)</b> Director	Sd/- <b>(B B Vyas, IAS)</b> Director
Sd/- <b>(Abdul Rauf Fazili)</b> Executive Director	Sd/- <b>(M Yaseen Mir)</b> Director	Sd/- <b>(B L Dogra)</b> Director	Sd/- <b>(Umar Khurshid Trambo)</b> Director
Sd/- <b>(Mushtaq Ahmad)</b> Executive President	Sd/- <b>(Abdul Majid Mir)</b> General Manager	Sd/- <b>(Parvez Ahmed)</b> Company Secretary	

Place : Srinagar  
Dated : 19th May, 2006

The above cash flow statement has been taken on record by the Board of Directors in its meeting held on 19th May, 2006 at Srinagar.

Sd/-  
**(Company Secretary)**

## Auditors' Certificate

We have verified the attached Cash Flow Statement of THE JAMMU & KASHMIR BANK LIMITED which has been compiled from and is based on the Audited Financial Statements for the year ended March 31, 2006 and March 31, 2005. To the best of our knowledge and belief and according to the information and explanations given to us, it has been prepared pursuant to clause 32 of the Listing Agreement with the Stock Exchanges.

Place : Srinagar  
Dated : 19th May, 2006

**For Gupta Gupta & Associates**  
Chartered Accountants

**For Gupta Sharma & Associates**  
Chartered Accountants

**For Baweja & Kaul**  
Chartered Accountants

Sd/-  
**(R K Gupta)**  
Partner  
M. No. 85074

Sd/-  
**(Satyam Gupta)**  
Partner  
M. No. 504340

Sd/-  
**(R K Mahapatra)**  
Partner  
M. No. 94348

## Comments of C & AG

COMPTROLLER AND AUDITOR GENERAL OF INDIA, HAS NO COMMENTS UPON OR SUPPLEMENT TO THE AUDITOR'S REPORT UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF JAMMU AND KASHMIR BANK LTD., FOR THE YEAR ENDED 31ST MARCH 2006.

Sd/-  
**Ghazala Meenai**  
Accountant General

11th July 2006

# Corporate Governance

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 our endeavour to go beyond the letter of the 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 which is different from the generic Anglo-Saxon one.

In line with the 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. In due course, we would set our self targets of social and economic reporting as a part of annual disclosures. This will help us conceptualise and contextualise 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”, our Bank as a business is expected to play a role in social transformation of the economy. This lends an urgency to implementation of good governance practices which go beyond the Corporate Governance code.

Operating in an environment that is emerging from a situation of civil strife, the issue of Corporate Governance assumes a different and greater relevance. We, as the prime corporation of Jammu and Kashmir, have a vested 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 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 us 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.

We want to be partners in the economic and social transformation of the nation. In our context there is a need to redefine the role of our directors to make J&K Bank an engine of social transformation. As an eminent corporate jurist (Chancellor William T. Allen) from US says, “A corporate director has civic responsibility. The people who accept this responsibility, do it conscientiously and well, deserve our respect as they are serving a nation. But those who as directors are passive and view their role as mere advisers, are pliable and pleasant but do not insist on a real monitor’s role, do small service to anyone and deserve little respect”. Our directors belong to the former category.

In addition, the rampant corruption that has alienated the civil society from most institutions, has to be an area of action for us as an institution.

## **VISION**

“To catalyse economic transformation and capitalise on growth”. Our vision is to engender and catalyse economic transformation of Jammu and Kashmir and capitalise 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.

## **MISSION**

Our mission is two-fold: To provide the people of J&K international quality financial service and solutions and 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.

## **BOARD OF DIRECTORS**

The responsibility for good governance rests on the Corporate Board who 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.

## **COMPOSITION**

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, Board of Directors of your 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. Your 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 six Non-executive Directors, one executive director and a Chairman. The Board’s composition of a majority of non-executive and independent Directors is a testimony of Bank’s adherence to the values of transparency, independence and integrity.

### FUNCTIONS OF THE BOARD

Your Bank's Board plays a pivotal role in ensuring good governance. Its style of functioning is democratic. The Members of the Board have always had 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 the Board Meetings with the permission of the Chairman.

The day-to-day management of the Company is conducted by the Chairman and 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 utilisation of resources at their disposal to achieve the goals visualized, interalia, 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.

### BOARD PROCEDURE

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.

### FREQUENCY OF BOARD MEETINGS

During the year under review, ten Board meetings were held, in due compliance with statutory provisions, on the following dates: 10.05.05, 08.06.05, 09.06.05, 01.07.05, 28.07.05, 06.09.05, 26.10.05, 29.11.05, 22.01.06 and 18.03.06.

### ATTENDANCE AT BOARD MEETINGS

Following table provides a bird's eye view of participation of Directors in Board meetings and last Annual General Meeting.

Financial Year 2005-06 Attendance at Board Meetings					
Name of Director	Category of Director	Meetings During the tenure	Meetings Attended	Percentage	Whether attended AGM held on 8.6.2005
Haseeb A Drabu (Chairman & CEO from 09.06.2005)	Chairman & CEO	10	10	100	Yes
M Y Khan (upto 08.06.2005)	Chairman & CEO	2	2	100	Yes
M S Verma (from 26.10.2005)	Independent Non Executive Director	4	3	75	—
B R Kundal, IAS (upto 22.12.2005)	Non-Executive Director	8	4	50	Yes
B B Vyas (IAS) (from 22.12.2005)	Non-Executive Director	2	2	100	—
A R Fazili (from 09.06.2005)	Executive Director	7	7	100	—
M Murli Radhakrishnan (up to 24.11.2005)	Independent Non-Executive Director	7	7	100	Yes
M L Mahajan (up to 24.11.2005)	Independent Non-Executive Director	7	6	86	Yes
G P Gupta	Independent Non-Executive Director	10	7	70	Yes
Vipin Malik (up to 09.09.2005)	Independent Non-Executive Director	7	4	57	Yes
M Yaseen Mir	Independent Non-Executive Director	10	5	50	No

B L Dogra	Independent Non-Executive Director	10	10	100	Yes
Munir-uddin Shawl (up to 29.11.2005)	Independent Non-Executive Director	8	8	100	Yes
U K Trambo	Independent Non-Executive Director	10	9	90	Yes
Nasser Munjee (up to 05.08.2005)	Independent Non-Executive Director	5	4	80	Yes

### BRIEF PROFILE OF DIRECTORS

J&K Bank's diverse and rich culture is abundantly evident in its Board Members, who provide direction to the Bank in order to achieve its vision. A brief profile of our eminent Board Members is as under:

#### HASEEB A DRABU

Haseeb A Drabu, Chairman & Chief Executive Officer of the bank, is a professional economist who has been on the Board of Directors of the Bank since 11th July, 2003.

Possessing a diverse skill set and wide ranging experience, he started his professional career with the Perspective Planning Division of the Planning Commission. Later he was appointed Consultant to the Economic Advisory Council of the Prime Minister. His final stint with policy making was with the Tenth Finance Commission.

Moving from government to the field of business journalism, he joined India's premier financial daily, Business Standard, and rose to become the National Editor of the paper. Even as a regular commentator on economic issues, he was associated with various governmental policy making bodies. Notably, in 1997, he was appointed member of the High Powered Committee on Economic Reforms for Jammu and Kashmir.

At present, he continues to work as the Economic Advisor to the Government of Jammu & Kashmir, a position he has held since January 2003. He is credited with having conceptualised wide ranging economic and fiscal reforms of the State Government.

He has been recently inducted by the Planning Commission to its working group on resources for the eleventh five-year plan. He has also worked as a Consultant for the Asian Development Bank.

He is a member of the Prime Minister's task force on the long-term development of J&K, chaired by C. Rangarajan, the former Governor of the Reserve Bank of India.

He is a member of the management committee of the Indian Banks Association. Also, he is a member of the CII's banking panel.

#### M S VERMA

Mayashanker Verma, a career banker with 45 years experience of working in the Indian financial sector has held some of the senior most and critical positions in the country's financial systems as well as its regulatory regimes. In a career spanning over more than four decades with the State Bank of India, India's largest commercial bank, Mr Verma's experience has been multi-level and wide ranging on different facets of banking at national and international levels encompassing commercial, developmental and investment banking as well as asset management and capital market operations. He was the Chairman of the State Bank of India from April, 1997 to November, 1998. Mr Verma has special understanding of total financial systems and strutting and growth management of such systems in developing countries. The IDBI under the Chairmanship of Mr Verma recorded very strong growth to become a leading Private Sector Bank in India. Mr Verma also acted as Honorary advisor to the Reserve Bank of India during which time he undertook several important policy related studies / projects from the Governor of the Reserve Bank of India.

#### G P GUPTA

G P Gupta, a Post-Graduate in Commerce, having combined stints in both academia and public sector, is also the Ex-Chairman and Managing Director, IDBI and has served on several distinguished positions such as Chairman, UTI, Chairman, SIDBI, Chairman, National Stock Exchange of India Ltd.; Member, Life Insurance Corporation of India, Member, General Insurance Corporation of India, Director, Export-Import Bank of India, Director, Infrastructure Development Finance Company Ltd., Director, Indian Airlines Ltd., Director, Discount & Finance House of India Ltd., Director, Securities Trading Corporation of India Ltd., Council Member, Indian Institute of Bankers and President, Entrepreneurship Development Institute of India, Ahmedabad.

### **B B VYAS (IAS)**

B B Vyas (IAS) Officer allotted to J&K Cadre is a Government nominated Director of our bank, having rich and varied experience in Banking, Finance, Agriculture, Disaster Management and District / Divisional Administration. Mr Vyas has held several distinguished positions in his career as Government servant. He has served in the Central Government as Deputy Secretary in-charge of Rural Credit, in Department of Banking in Ministry of Finance and has played an active role in the recapitalisation of Regional Rural Banks (RRBs) and restructuring of Co-operative Credit institutional framework in the country. Mr Vyas has also served as Government Nominee Director on the Board of Directors of UCO Bank where he was involved in the formulation and implementation of Strategic Revival Plan, State Bank of Bikaner and Jaipur (SBBJ), Deposit Insurance and Credit Guarantee Corporation (DICGC) etc. Mr Vyas has also headed the personal office of Union Finance Minister, besides serving for three years in United Nations Development Programme (UNDP), overseeing "livelihood-based" projects. Presently, Mr B. B. Vyas is working as Finance Secretary in the State Government of J&K. He is also holding directorship in a number of state-owned Corporations such as Jammu & Kashmir State Power Development Corporation Ltd., J&K Tourism Development Corporation, Jammu & Kashmir Industries Ltd., J&K Cements, J&K Handicrafts Development Corporation, J&K Handlooms Development Corporation, J&K Projects Construction Corporation, J&K State Road Transport Corporation etc.

### **ABDUL RAUF FAZILI**

Abdul Rauf Fazili, is the Executive Director of our Bank. Mr Fazili has a long-standing association with the bank, dating back to 1972 and has served Bank's hierarchy in various executive capacities. His areas of specialisation include Regulatory, Credit, Personnel, General Administration, Estates, Insurance, Rural Banking, Money Cards, Lead Bank etc. During the course of his career with the Bank, Mr Fazili has also performed as Chairman of Kamraz Rural Bank – a bank sponsored by the J&K Bank. He has also been a member of the personal committee of Indian Bank's Association during the year 2002-03. Mr Fazili has played a key role in starting Bank's corporate agency with Bajaj Allianz General Insurance Co. and MetLife India Insurance Co. He has been a pioneer in completing The Jammu and Kashmir Bank Officers Service Manual 2000, a long cherished demand of employees of the Bank.

### **M YASEEN MIR**

M Yaseen Mir, well known Industrialist is also the Director and C.E.O. of various Companies incorporated by him. Having his interests centred in the manufacture and export of Kashmir Handicrafts, Mr Mir is responsible for the setting-up of prominent Business Establishments in India as well as abroad and has made significant contribution in the promotion of Trade, Commerce and Industry of J&K state.

### **B L DOGRA**

B L Dogra, is a Fellow Member of the Institute of Chartered Accountants of India and is also Founder of M/s Dogra Associates, a practicing Firm of Chartered Accountants. Presently linked as Director with our Bank, Mr Dogra has also served on the Board of Directors of Punjab National Bank and has also been the Chairman of J&K Chapter of Northern India Regional Council of the Institute of Chartered Accountants of India. Mr Dogra has also been associated with Social and Sports Associations of the State. He has a rich and varied experience in the field of Banking and Insurance, which has facilitated healthy rejuvenation in the Bank's business working.

### **UMAR KHURSHID TRAMBOO**

Umar Khurshid Tramboo, youngest Director on the Board is well known and distinguished Businessman of the State with a rich academic background traceable to a Bachelor of Commerce Degree earned through the prestigious Bond University, Gold Coast, QLD Australia with a double Major in Management and family business and entrepreneurship and also achiever of Masters Degree in Business Administration through the same university. On the basis of his outstanding academic achievements, Mr Tramboo has earned prestigious awards of the Most Outstanding Academic Achievement for Management Controllership and Most Outstanding Academic Achievement for Marketing Strategy. Presently, Mr Tramboo is the CEO of Khyber Kareem Silk (P) Ltd. and Director, Khyber Industries Pvt Ltd., - the most diversified, spread out industrialised group of the valley, running successfully as many as seven constituents of their industries in various fields relating to Agro, Cement, Health Care, Textiles etc. Mr Tramboo's extensive knowledge, entrepreneurial spirit, excellent presentation skills and well versed modern management concept has reaped a rich harvest for the companies he is associated with.

### **Disclosures**

The Board of your 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 is pleased to disclose that

1. 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.
2. Bank has not entered into any materially significant transaction with its Directors, Management or with their relatives, other than in normal course of business of the Bank.
3. All Directors of your Bank except State Govt. nominees are Non-Executive and Independent Directors within the meaning of clause 49 of Listing Agreement.
4. 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 effect interests of the Bank.
5. The Directors did not incur any disqualification under Section 274 (1) (g) or under any other law applicable to the Bank.
6. 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.
7. The Bank has complied with Corporate Governance norms as stipulated by SEBI.
8. The Bank has complied with all applicable accounting standards and related RBI guidelines

### **DIRECTORSHIP IN OTHER COMPANIES**

The Directors of the Bank also hold positions as Directors in other Companies as per details furnished hereunder:

#### **M S VERMA**

Director: International Asset Reconstruction Company Private Limited, Contemporary Health Pvt.Ltd., Uttaranchal Jal Vidyut Nigam Limited, Alliance Capital Asset Management India Pvt Limited, Power Trading Corporation of India Limited, Visa Steel Limited, SREI Infrastructure Finance Limited, Ratnagiri Gas and Power Private Limited.

#### **G P GUPTA**

Director: Birla Sun Life Insurance Company Ltd., Hindustan Aeronautics Ltd., M. P. Power Generation Co. Ltd., SIDBI Venture Capital Ltd., Swaraj Engines Ltd., NTPC Limited, PTC Limited, Aditya Birla Nuvo Ltd., Su-raj Diamond And Jewellery Limited, Emkay Share and Stock Brokers Limited, Power Finance Corporation Ltd., Shree Digvijay Cement Co. Ltd.

#### **B B VYAS (IAS)**

Director: The Jammu and Kashmir State Power Development Corporation Ltd.; Jammu & Kashmir Cements Ltd; Jammu & Kashmir Industries Ltd; Jammu and Kashmir Handicrafts Development Corporation, J&K Tourism Development Corporation Ltd., J&K Handloom Development Corp. Ltd., J&K Project Construction Corporation Ltd., J&K State Road Transport Corporation.

#### **ABDUL RAUF FAZILI**

Director: MetLife India (Pvt) Limited

#### **M YASEEN MIR**

Director: Trans Asian Industries Exposition (P) Ltd., Oriental Collection Ltd., Mauritius, Trans Asian Industries Exposition GmbH, Germany, Royal Collection International Co. Ltd., Thailand.

#### **UMAR KHURSHID TRAMBOO**

Director / CEO: Khyber Industries Pvt. Ltd., Khyber Kareem Silk (P) Ltd.

### **MEMBERSHIP OF COMMITTEES OF OTHER COMPANIES**

#### **G P GUPTA**

Aditya Birla Nuvo Ltd, Member, Audit Committee  
NTPC Limited, Chairman, Audit Committee  
Swaraj Engines Ltd, Member, Audit Committee  
PTC India Limited, Member, Audit Committee  
Birla Sun Life Insurance Company Ltd, Member, Audit Committee  
Birla Sun Life Insurance Company Ltd, Member, Share Allotment Committee  
Hindustan Aeronautics Ltd, Member, Audit Committee.

**M S VERMA**

Uttranchal Jal Vidyut Nigam Limited, Member, Audit Committee  
 Power Trading Corporation of India Limited, Chairman, Audit Committee and Remuneration Committee  
 Visa Steel Limited, Member, Audit Committee  
 Visa Steel Limited, Chairman, Remuneration Committee and Finance Committee

**COMMITTEES OF THE BOARD**

The Board of Directors of your Company has constituted several Committees of Board to take decisions on matters requiring special focus. The role and functions of the main Committee of the Board is described hereunder:

**Audit Committee**

**ROLE AND FUNCTION**

Bank has constituted an Audit Committee of the Board 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 finalisation 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 report 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.

**Composition, Meetings and Attendance**

The Audit Committee of the Board consists of:

- M S Verma, Chairman
- G P Gupta, Member
- B B Vyas (IAS), Member
- B L Dogra, Member

The Audit Committee met 13 (Thirteen) times during the year in due compliance with RBI and Listing Agreement requirements, on the following dates:

17.04.05, 09.05.05, 11.05.05, 02.07.05, 29.09.05, 30.09.05, 25.10.05, 06.12.05, 07.12.05, 21.01.06, 24.02.06, 25.02.06 and 03.03.06

These meetings were attended by members as detailed below:-

	<b>Name of the Members</b>	<b>No. of Meetings during the Tenure</b>	<b>No. of Meetings Attended</b>	<b>% of Attendance</b>
1.	M S Verma	6	3	50
2.	G P Gupta	13	13	100
3.	B B Vyas (IAS)	4	2	50
4.	Murli Radhakrishnan	7	6	86
5.	M L Mahajan	7	6	86
6.	Vipin Malik	4	3	75
7.	B L Dogra	13	13	100
8.	Munir-Ud-din Shawl	7	7	100

## Corporate Governance ...

### Management Committee

#### ROLE AND FUNCTION

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.

#### Composition, Meetings and Attendance

The Committee consists of:

Haseeb A Drabu, Chairman

G P Gupta, Member

B B Vyas (IAS), Member

AR Fazili, Member

B L Dogra, Member

Umar Khurshid Trambo, Member

The Management Committee met 7 (seven) times during the year on the following dates:

10.05.2005, 08.06.05, 28.07.05, 07.09.05, 29.11.05, 22.01.05 and 18.03.06.

These meetings were attended by members as detailed below

	Name of the Members	No. of Meetings during the Tenure	No. of Meetings Attended	% of Attendance
1.	Haseeb A Drabu	5	5	100
2.	M Y Khan	1	1	100
3.	Murli Radhakrishnan	1	1	100
4.	M L Mahajan	1	1	100
5.	G P Gupta	7	5	71
6.	Vipin Malik	4	2	50
7.	B L Dogra	7	7	100
8.	Umar Khurshid Trambo	7	5	71
9.	Nasser Munjee	3	1	33
10.	A R Fazili	5	5	100

### Integrated Risk Management Committee

#### ROLE AND FUNCTION

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.

1. Identify, monitor and measure the risk profile of the Bank
2. Develop policies and procedures, verify the models that are used for pricing complex products and also identify new risks
3. Develop policies that clearly spell out the quantitative prudential limits on various segments of Bank's operations
4. Effectively communicate the risk strategy and policies throughout the organization

### Compensation Committee

#### ROLE AND FUNCTION

Bank has constituted 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.

**Shareholders / Investors Grievance Committee**

ROLE AND FUNCTION

1. The Bank has constituted a Committee designated as shareholders / Investors Grievance Committee which looks into redressing of Shareholders and Investors Complaints.
2. All shareholders' / investors' grievances / correspondence were 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 31.03.2006. All requests for dematerialisation of shares are likewise processed and confirmation communicated to Investors and Depository Participants within five working days.
3. During the year 687 service requests / complaints were received and all these service requests / complaints stand redressed. The status of investors' / shareholders' service requests / grievances received during the year under report is as follows:

PARTICULARS	RECEIVED	DISPOSED	PENDING
1. Change / Correction of the Addresses.	170	170	NIL
2. Correction of the name on the Share Certificates	0	0	Nil
3. Change / Correction of Bank Mandate	40	40	Nil
4. Non-receipt of Share Certificates	11	11	Nil
5. Loss of Share Certificates and request for issuance of duplicate Share Certificate(s)	206	206	Nil
6. Request for transmissions	67	67	Nil
7. Non-receipt of share certificates after transfer (NRSCAT)	4	4	Nil
8. Correspondence / query relating to NSDL operations	0	0	Nil
9. Non-receipt of dividend warrants (NRDW)	94	94	Nil
10. Correction of Bank Mandate / name on Dividend Warrants	Nil	Nil	Nil
11. Receipt of dividend warrants for revalidation	54	54	Nil
12. Receipt of indemnity bond for issue of duplicate dividend warrants	Nil	Nil	Nil
13. Registration of nomination	13	13	Nil
14. Complaints from SEBI / Stock Exchanges	Nil	Nil	Nil
15. Legal Cases / Cases before Consumer Forums	Nil	Nil	Nil
16. Non-receipt of fully paid stickers	9	9	Nil
17. Request for deletion of name due to death	19	19	Nil

Shareholders / Investors Grievance Committee consists of:

G P Gupta, Chairman

B L Dogra, Member

Umar Khurshid Trambo, Member

**Other Committees**

MONITORING OF LARGE VALUE FRAUDS COMMITTEE

Role and Function

Committee has been constituted pursuant to RBI directions to monitor the fraud cases involving an amount of Rs 1 Crore and above.

SHARE TRANSFER COMMITTEE

Role and Function

The Committee has been constituted to approve various matters relating to transfers, transmissions, issue of duplicate share certificates, etc. The Committee seeks the confirmation of the Board of Directors in respect of approved transactions in the ensuing Board Meeting.

## Corporate Governance ...

### NOMINATION COMMITTEE

#### Role and Function

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.

### CUSTOMER SERVICE COMMITTEE

#### Role and Function

The Committee has been constituted with a view to look into matters relating to customer complaints and speedy redressal thereof.

### INFORMATION TECHNOLOGY COMMITTEE

#### Role and Function

Bank has constituted IT Committee, with a view to monitor the progress of effective assimilation and speedy implementation of Information Technology in the Bank.

### REMUNERATION

#### Policy

Remuneration of the Chief Executive Officer / Whole-time Director is subject to approval of Reserve Bank of India in terms of Section 35B of the Banking Regulation Act, 1949.

#### Chairman / Executive Director

Haseeb A Drabu is the Chairman & CEO of the Bank effective from 9th June 2005. In terms of Section 35B of the Banking Regulation Act, 1949, the monthly remuneration being paid to him, details of which are given below, has been duly approved by Reserve Bank of India.

<b>Basic Pay</b>	Rs	1,80,000.00
<b>DA</b>	Rs	36,000.00
<b>Provident Fund</b>	Rs	18,000.00
<b>Total</b>	Rs	2,34,000.00

Abdul Rauf Fazili is the Executive Director of the Bank effective from 9th June 2005. In terms of Section 35B of the Banking Regulation Act, 1949, the monthly remuneration being paid to him, details of which are given below, has been duly approved by Reserve Bank of India.

<b>Basic Pay</b>	Rs	63,000.00
<b>DA</b>	Rs	12,600.00
<b>HRA</b>	Rs	9,072.00
<b>Total</b>	Rs	84,672.00

#### Non – Executive Directors

Non – Executive Directors other than the State Govt. and RBI nominated Directors are paid only sitting fees for the meetings attended. The details of the same are given below:

- Rs 4000/- for every Board meeting and Rs 3000/- for every Committee meeting.

#### Details of number of Shares / Convertible Debentures held by Non-Executive Directors

<b>Name of the Director</b>	<b>No of shares held</b>	<b>Number of convertible debenture held</b>
M S Verma	500	Nil
G P Gupta	500	Nil
B B Vyas (IAS)	Nil	Nil
M Yaseen Mir	500	Nil
B L Dogra	500	Nil
Umar Khurshid Tramboo	500	Nil

#### OTHER DISCLOSURES

##### **Code of Conduct for the Board Members and Senior Management Personnel**

The Board of Directors has approved a Code of Conduct for Board Members and Senior Management Personnel of J&K Bank. This Code is also available on the website of the Bank, [www.jammuandkashmirbank.com](http://www.jammuandkashmirbank.com). In terms of revised Clause 49 of the listing agreement, a confirmation from the Chairman & CEO regarding compliance with the Code by all the Directors and Senior Management is furnished below.

I confirm that all Directors and Senior Management Personnel have affirmed compliance with the J&K Bank Code of Conduct for Board Members and Senior Management Personnel.

Haseeb A Drabu  
Chairman & CEO

##### **CEO / CFO CERTIFICATION**

In terms of revised Clause 49 of the Listing Agreement, the certification by the CEO and CFO on the financial statements and internal controls relating to financial reporting has been obtained.

##### **INSIDER TRADING CODE**

The Bank has formulated a Code for prevention of Insider Trading pursuant to Securities and Exchange Board of India (Insider Trading) (Amendment) Regulations, 2002, to prevent practices of Insider Trading. Mr Parvez Ahmed, Company Secretary, has been designated as Compliance Officer for this purpose. Senior Management of J&K Bank have affirmed compliances with the Code of Conduct.

##### **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.

##### **Ethical Corporate Policy For Acceptance of Gifts**

Bank has introduced, Corporate Ethical Policy for setting forth a code of accountability of J&K Bank's Directors, Officers and Employees in the discharge & performance of their responsibilities.

##### **Legal Compliances**

Except the penalties imposed by the Reserve Bank of India, as disclosed in the notes to accounts in the balance sheet, there were no cases of non-compliance by the Bank and no penalties or strictures have been imposed on or proposed against the Bank by the stock exchange (s) and / or SEBI and / or any other statutory authorities on matters relating to capital market.

The Bank has complied with the provisions of relevant Acts, Rules & Regulations framed there under during the year 2005-2006.

#### SHARE HOLDERS INFORMATION

##### **Stock Exchanges where equity shares are listed.**

The Addresses of Stock Exchanges where the equity shares of the Bank are listed are furnished hereunder:

- a. **National Stock Exchange of India Limited**  
Exchange Plaza  
Bandra Kurla Complex, Bandra (E)  
Mumbai 400 051
- b. **The Bombay Stock Exchange Ltd.**  
Phiroze Jeejeebhoy Towers  
Dalal Street  
Mumbai 400 001

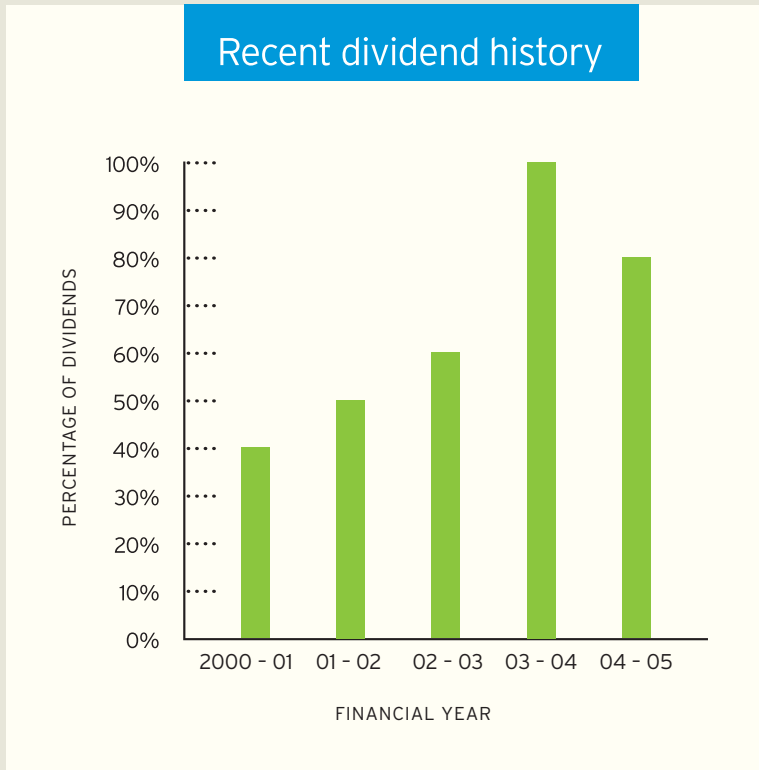
The annual fees for 2005-06 have been paid to all the Stock Exchanges where the shares are listed.

Stock Code: J&K Bank

Demat ISIN Number : INE 168A01017

Name of Depositories : i. NSDL  
ii. CDSL





#### Dematerialised / Physical Shares

The shares of the Bank are in compulsory dematerialised segment and are available for trading in depository systems of both National Securities Depository Limited and Central Depository Services (India) Ltd. As on 31st March, 2006, the position of dematerialised shares as well as physical shares are as under:

(As on 31.03.2006)

Particulars	No. of Shares	%age
Physical Shares	3,00,99,26	6.21
Dematerialised Shares	45,46,77,76	93.79
<b>Total</b>	<b>48,47,77,02</b>	<b>100.00</b>

#### Distribution of Shareholding as on 31.03.2006

Category	No. of Holders	% age Holders.	Amount (Holding)	% Holding
1. 1 – 5000	23423	88.53	30549750.00	6.30
2. 5001 – 10000	2390	9.03	15336110.00	3.16
3. 10001 – 20000	296	1.12	4361690.00	0.90
4. 20001 – 30000	117	0.44	2908360.00	0.60
5. 30001 – 40000	50	0.19	1714960.00	0.36
6. 40001 – 50000	33	0.12	1523350.00	0.31
7. 50001 – 100000	60	0.23	4437200.00	0.92
8. 100001 and above	90	0.34	423945600.00	87.45
<b>Total</b>	<b>26459</b>	<b>100.00</b>	<b>48477720.00</b>	<b>100.00</b>

**List of Shareholders holding more than 1% as on 31st March, 2006**

<b>Name of Investor</b>	<b>No. of Shares</b>	<b>% Holding</b>
1. Chief Secretary J&K Govt.	24322598	50.17
2. FID Funds (Mauritius) Ltd.	2048755	4.23
3. Aberdeen Asset Managers Limited	1718000	3.54
4. Morgan Stanley and Co. International Ltd.	1702609	3.51
5. Secretary, Finance Dept. J&K Government	1452668	3.00
6. Vontobel Fund Far East Equity	1220418	2.52
7. Goldman Sachs Investments (Mau) India Ltd	1021789	2.11
8. Arisaig Partners (Asia) Pte. Ltd.	959771	1.98
9. City Group Global Markets Mauritius Pvt. Ltd.	694865	1.43
10. BSMA Limited	675400	1.39

**Unclaimed Dividends**

All the shareholders whose dividend is unpaid have been intimated individually to claim their dividend. Under the Transfer of Unclaimed Dividend Rules, it would not be possible to claim the dividend amount once deposited in Investors' Education & Protection Fund (IEPF), therefore, shareholders are again requested to claim their unpaid dividend, if not already claimed.

The details of unclaimed dividend of last three years is as under:

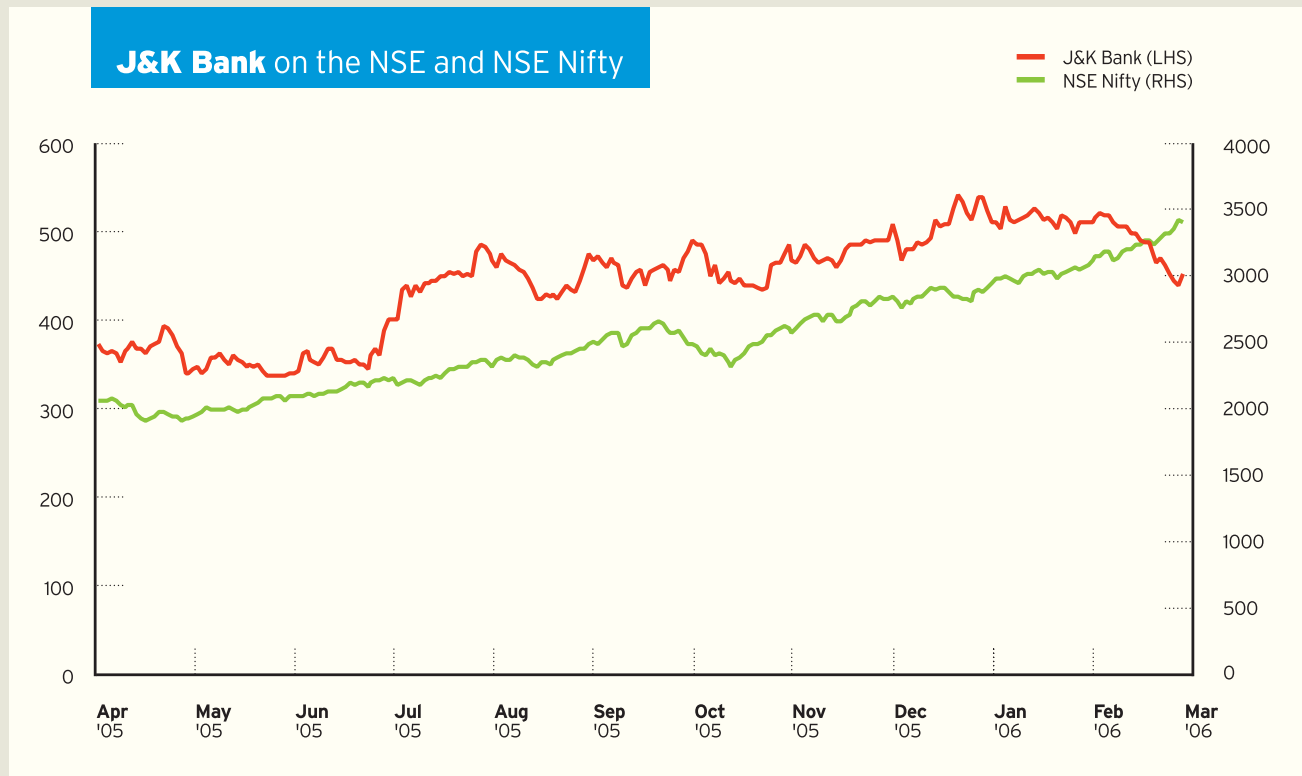
(As on 31.03.2006)

<b>Financial Year</b>	<b>Amount of Unclaimed Dividend</b>
1. 2002-03	20,70,011.00
2. i. 2003-04 (Interim)	19,37,994.00
ii. 2003-04 (Final)	22,46,898.00
3. 2004-2005	27,88,749.00
Total	<b>90,43,652.00</b>

**Stock Market Data**

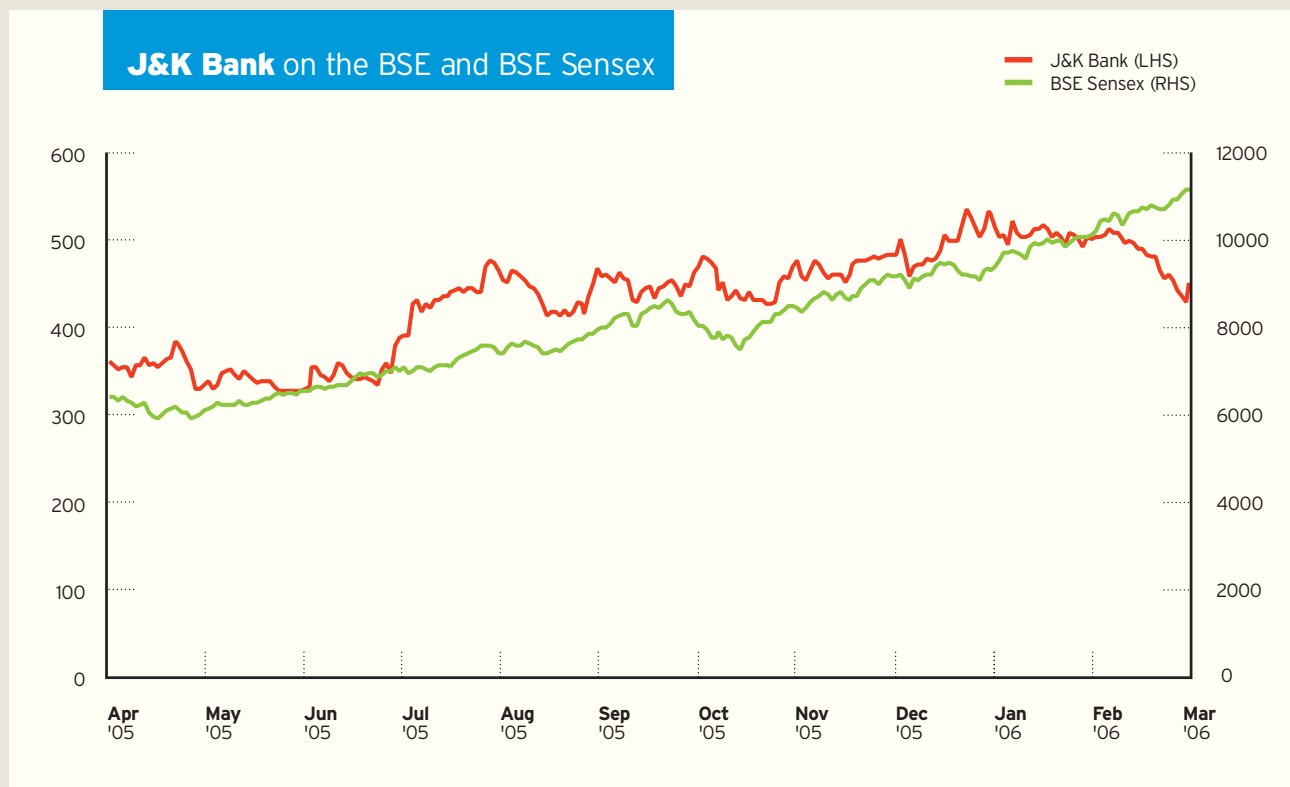
**JK BANK ON NSE NIFTY APRIL 2005 – MARCH 2006**

MONTH	HIGHEST		LOWEST		CLOSE		VOLUME
	Rate (Rs)	Date	Rate (Rs)	Date	Rate (Rs)	Date	
2005 April	400.00	06.04.05	331.90	20.04.05	361.70	29.04.05	1218879
2005 May	378.95	02.05.05	308.00	02.05.06	337.65	31.05.05	1930173
2005 June	373.00	16.06.05	335.10	01.06.05	366.65	30.06.05	1017712
2005 July	468.00	11.07.05	356.10	01.07.05	449.55	29.07.05	2576914
2005 August	490.00	02.08.05	400.00	31.08.05	423.65	31.08.05	759429
2005 September	488.00	22.09.05	418.00	01.09.05	453.65	30.09.05	625007
2005 October	525.00	27.10.05	408.00	31.10.05	440.55	31.10.05	1220587
2005 November	494.00	26.11.05	431.10	07.11.05	467.40	30.11.05	1150765
2005 December	518.00	23.12.05	451.30	06.12.05	486.90	30.12.05	1246117
2006 January	567.70	13.01.06	482.00	02.01.06	528.50	31.01.06	1240750
2006 February	540.00	28.02.06	486.00	03.02.06	511.85	28.02.06	1836971
2006 March	526.90	03.03.06	437.00	30.03.06	450.80	31.03.06	1207440



**JK BANK ON BSE SENSEX APRIL 2005 – MARCH 2006**

MONTH	HIGHEST		LOWEST		CLOSE		VOLUME
	Rate (Rs)	Date	Rate (Rs)	Date	Rate (Rs)	Date	
2005 April	400.00	26.04.05	335.05	18.04.05	361.30	29.04.05	452822
2005 May	365.95	11.05.05	332.00	04.05.05	337.20	03.05.05	517772
2005 June	384.00	08.06.05	328.00	29.06.05	368.80	30.06.05	495329
2005 July	458.80	27.07.05	341.70	01.07.05	453.70	29.07.05	952997
2005 August	489.95	04.08.05	413.00	29.08.05	422.40	31.08.05	252822
2005 September	519.00	12.09.05	408.00	23.09.05	453.10	30.09.05	134199
2005 October	508.00	17.10.05	426.05	10.10.05	439.20	31.10.05	514200
2005 November	496.00	23.11.05	408.00	07.11.05	468.40	30.11.05	469844
2005 December	563.00	30.12.05	457.00	27.12.05	485.85	30.12.05	948422
2006 January	550.00	13.01.06	450.00	30.01.06	527.85	31.01.06	507301
2006 February	534.90	13.02.06	481.10	20.02.06	510.70	28.02.06	826722
2006 March	535.00	20.03.06	432.00	30.03.06	451.40	31.03.06	389655



### IMPORTANT EVENTS AFTER THE CLOSURE OF FINANCIAL YEAR ENDED 31.03.2006

This report covers the period of financial year of the Bank beginning on 1st of April 2005 to 31st of March 2006. There were no material events from 01.04.2006 to 19.05.2006, the date when the annual accounts were adopted by the Board of Directors of the Bank.

#### Means of Communication:

J&K Bank disseminates information about its operations through various means to shareholders, analysts and the society at large. All official news releases and presentations made to institutional investors and analysts are posted on the Bank's website [www.jammuandkashmirbank.com](http://www.jammuandkashmirbank.com). It also issues press releases and conducts programmes that disseminate information. The quarterly results of the Bank are published in widely circulated national newspapers and are also placed on our website. The Board takes on record the Un-audited Financial Results in the prescribed form of the Stock Exchanges within one month of the closure of the quarter and announces forthwith the results to all the Stock Exchanges where the shares of the company are listed. The highlights of quarterly results are also published in National and Vernacular Newspapers within 48 hours of the conclusion of the Board Meeting in which they are taken on record and information is also placed on the websites of the Bank. The Bank regularly organizes Press / Analyst Meets to apprise the Fund Managers, Press and Analysts about the financial performance of the Bank and to receive their suggestion for future growth.

#### Shareholders Rights

A shareholder can enjoy the following rights mentioned in the Companies Act, 1956:

- To transfer the shares.
- To receive the share certificates upon transfer within the stipulated period prescribed in the Listing Agreement.
- To receive notice of general meetings, the balance sheet and profit and loss account and the auditors' report.
- To appoint proxy to attend and vote at the general meetings. In case the member is a body corporate, to appoint a representative to attend and vote at the general meetings of the company on its behalf.
- To attend and speak in person, at general meetings. Proxy cannot vote on show of hands but can vote on a poll.
- To vote at the general meeting on show of hands wherein every shareholder has one vote. In case of poll, the number of votes of a shareholder depends on the proportion of equity shares held by him with the total paid up equity capital of the company.
- To demand poll along with other shareholder(s) who collectively hold 5,000 shares or is not less than 1/10th of the total voting power in respect of any resolution.
- To requisition an extraordinary general meeting of any Company by shareholders who collectively hold not less than 1/10th of the total paid up capital of the company.
- To move amendments to resolutions proposed at meetings.
- To receive dividend and other corporate benefits like rights, bonus shares etc. as and when declared / announced.
- To take inspection of the various Registers of the Company.
- To inspect the minutes books of general meetings and to receive copies thereof after complying with the procedure prescribed in the Companies Act, 1956.
- To proceed against the Company by way of civil or criminal proceedings.
- To proceed against for the winding up of the Company.
- To receive the residual proceeds upon winding up of a Company.

#### Investors' Feedback

In our endeavour to serve our shareholders more effectively and in order to improve the quality of our communication with our esteemed members, we request you to spare some of your precious moments and provide us your valuable feedback in the enclosed proforma.

## Corporate Governance ...

<b>Calendar for shareholders' information</b>	<b>Date</b>
• Board meeting for consideration of Accounts and recommendation of Dividend	19th May 2006
• Despatch of Annual Report / Notice of AGM	2nd August 2006
• Book closure Period	19th August 2006 - 26th August 2006
• Last date for lodgment of proxy forms	24th August 2006
• Date of AGM	26th August 2006
• Dividend payment date on or after	26th August 2006
• Validity dates of dividend instrument	Three Months

# Disclosure on Company Secretary's Responsibility

The Company Secretary confirms that during the year from April 1, 2005 to March 31, 2006, the Bank has:

1. Maintained all the Books of Account and Statutory Registers required under the Companies Act, 1956, and the Rules made thereunder coming under the preview of Company Secretary responsibility;
  - i. Filed all Forms and Returns and furnished all necessary particulars to the Registrar of Companies and / or authorities as required under the Companies Act, 1956, coming under the preview of Company Secretary responsibility;
  - ii. Issued all Notices required to be given for Board and General Meetings as per the requirement of the Companies Act, 1956;
  - iii. Complied with the requirements relating to maintenance of Minutes of the proceedings of the Meetings of Directors, Committees of the Board and Shareholders;
  - iv. Complied with the requirements of the Listing Agreement entered into with Stock Exchanges;
  - v. Effected Share Transfers and despatched Certificates within the Statutory time limit;
  - vi. Redressed complaints of Shareholders to the best of efforts of the Company;
  - vii. Complied with the regulation prescribed by the Stock Exchanges, SEBI, and other Statutory and Regulatory Authorities and also the Statutory requirements under the Companies Act, 1956, Banking Regulation Act, 1949 and other applicable statutes in force for the Banking Company, as far as they relate to the Company Secretary.
  - viii. Made due disclosure required under the applicable Acts; Obtained all necessary approvals of Directors, Shareholders, Central and State Governments and other regulatory agencies.
2. The Board of Directors of Bank duly met Ten (10) times during the financial year and in respect of meetings conducted during the period proper notices were given and the proceedings were properly recorded and signed in the minutes book maintained for the purpose. The meetings of various Committees of the Board were duly and properly convened and minutes of such meetings have been properly recorded and signed in the minutes book maintained for the purpose.
3. The Bank closed its Register of members from 30th May, 2005 to 8th June, 2005 (both days inclusive) in connection with 45th dividend of the Bank and necessary compliance of Section 154 of the Act, has been made.
4. The Annual General Meeting for the financial year 2004-05 was held on 8th June, 2005 after giving due notice to the members of the Bank and the resolutions passed thereat were duly recorded in minutes book maintained for the purpose.
5. The Bank has not advanced any loans to its Directors or persons or firms or Companies referred to under section 295 of the Companies Act, 1956, during the financial year.
6. The Bank has not entered into any contracts falling within the purview of section 297 of the Act.
7. A Share Transfer Committee of the Board has approved the issue of duplicate share certificates, transfer and transmission, sub-division / consolidation of shares of the bank. The proceedings of the above committee have been properly recorded, signed in the Minutes Book maintained for the purpose.
8. Unclaimed amount, in respect of unpaid / unclaimed dividend warrants / refund orders, have been transferred to the Investor Education and Protection Fund of the Central Govt. with Punjab National Bank within the prescribed time limit.
9. The Board of Directors of the Company is duly constituted and the appointment of Directors and Additional Directors have been duly made.
10. The appointments of Chairman and other Directors of the Company have been made in accordance with the Articles of Association of the Company read with the relevant provisions of the Act.
11. The Directors disclosed their interest in other firms / companies to the Board of Directors pursuant to the provisions of the Act and the rules made thereunder and their disclosures have been noted and recorded by the Board.
12. The Company has not issued any shares or other securities during the financial year.
13. The Company has not bought back any shares during the financial year.

Place : Srinagar  
Dated : 19.05.2006

**Parvez Ahmed**  
Company Secretary

To

The Members of  
**The Jammu & Kashmir Bank Limited**

We have examined the compliance of the conditions of the Corporate Governance by The Jammu & Kashmir Bank Limited for the year ended 31st March, 2006 as stipulated in Clause 49 of the Listing Agreement of the said Bank with the various Stock Exchanges.

The compliance of the conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to the procedures and implementation thereof, adopted by the Bank for ensuring the compliance of conditions of Corporate Governance. It is neither an audit nor expression of opinion on the financial statements of the Bank.

We certify that in our opinion, and to the best of our information and according to explanations given to us the Bank has complied with the conditions of the Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Bank as per the records maintained by the Bank.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the Management has conducted the affairs of the Bank.

**For Gupta Gupta & Associates**  
Chartered Accountants

**For Gupta Sharma & Associates**  
Chartered Accountants

**For Baweja & Kaul**  
Chartered Accountants

Place : Srinagar  
Dated : 19th May, 2006

Sd/-  
**(R K Gupta)**  
Partner  
M. No. 85074

Sd/-  
**(Satyam Gupta)**  
Partner  
M. No. 504340

Sd/-  
**(R K Mahapatra)**  
Partner  
M. No. 94348



**J&K Bank**

Corporate Headquarters  
M A Road, Srinagar 190001  
Jammu & Kashmir  
[www.jkbank.net](http://www.jkbank.net)