

**J&K Bank**  
Corporate Headquarters  
M A Road, Srinagar 190 001  
Jammu & Kashmir  
[www.jkbank.net](http://www.jkbank.net)

# Serving to Empower



ANNUAL REPORT 2006-07





## Contents

03	Designing Destiny
04	The Flowering Entrepreneur
06	Electrifying Success
08	Fruits of Finance
10	True Mobility
12	Chairman's Statement
15	Board of Directors
17	Executive Committee
18	Events
21	Directors' Report
22	Management Discussion & Analysis
28	Auditors' Report
29	Balance Sheet
30	Profit & Loss Account
31	Schedules to Balance Sheet
37	Schedules to Profit & Loss Account
38	Principal Accounting Policies
40	Notes on Accounts
52	Cash Flow Statement
53	Comments of C & AG
54	Report on Corporate Governance

# Changing Lives

For us at J&K Bank, empowerment is the process of enhancing the capacity of individuals or groups to make choices and to transform those choices into desired actions and outcomes.

Central to this process are actions which build both individual and collective assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets.

J&K Bank is working on empowering people and demonstrating that people with lesser means can be reached and reached profitably.

People in J&K don't want hand-outs. They want access to resources. With a hand-out, you're a beneficiary. With a loan, you get dignity, and the respect that comes when someone is willing to make an investment in you, to trust that you will repay.

In this report we showcase some of the real life examples of empowerment in J&K by the J&K bank.



'I had no idea that there was any such scheme with the bank that provides loans to people like us who have nothing to offer as security'

# Designing Destiny

**Asif Majeed Khan**, a tall, jeans-clad man of just 22 years, has been working in the copper-works shop in Rajouri Kadal that his uncle runs from a house located in downtown Srinagar, for the last four years. A resident of Deviangana Hawal, Asif has mastered Kandkhari (an art of engraving different kinds of shapes on copperware), which he does with considerable speed and surprising accuracy. Sitting on his haunches in a small tin shed, he works upon a copper vessel kept on a small round wooden support. There are several more in front of Asif that he will speedily tackle in the next half an hour. Meantime Asif's uncle and cousin join him, taking a piece each from the pile.

Son of a driver, Asif candidly admits that his lack of interest in studies, resulted in him join the copper works even before he completed his secondary school. This work fetched him a meagre Rs 150/- per day, not enough to help his father support a family. The idea of working on daily basis would always bother him. He says 'The money I made working at my uncle's workshop was not enough to support my father who works as a driver. It would be all the more difficult once I have my own family'.

Trying to do something on his own, Asif was looking to borrow money from relatives and friends. 'Till then,' he says, 'I had no idea that there was any such scheme with the Bank that provides loans to people like us who have nothing to offer as security'.

He was identified for financial assistance under the micro-finance initiative of J&K Bank by a sales manager of the Bank because, 'I found him hard working, honest and upright and recommended his case for financial assistance.' Given a cash credit facility of Rs 50000/- through the Rajouri Kadal branch in January 2007, Asif invested the loan amount in purchasing raw material for copperware.

So how has all this made a difference in Asif's life? 'Having been in the business for only six months, today in addition to my own Rs 150/- for Kandhkari work, I have also started getting returns on the investments I have made, which has almost doubled my income,' acknowledges Asif. This has not only improved his financial position at home, but has also made him confident enough to dream big about a separate shop one day. Finding the work lucrative enough, he has also involved his younger brother in it.

Asif readily admits that all this would not have been possible, but for the help he received from J&K Bank. Initially hesitant to avail the loan for fear of not being able to repay it, Asif now looks forward to liquidating his present loan quickly so that he can avail another one. He believes that 'This is the only way people like us can grow and J&K Bank is the only hope for our growth.'

'I feel proud of myself and regret the days I wished to become a doctor. I had never dreamt that I would do something that will bring me such laurels. The best thing about it is that it is a job-generating enterprise. I can provide employment to people'

# The Flowering Entrepreneur

In a greenhouse brimming with blooms, she gracefully tends the plants with the ease of long practice. Slim, confident and poised she looks after them like a mother tending her children, touching the leaves, feeling the buds and plucking out the weeds.

**Rubeena Tabasum**, a middle-class Kashmiri woman from Chadoora, Budgam is the maiden recipient of the J&K Bank's 'Women Entrepreneur Award'. Although hailing from a backward village, strong-willed Rubeena managed to turn the tide and realize her dreams.

Nurturing a desire to join the noblest profession on earth she met with failure. 'As a child I wanted to become a doctor. But I could not qualify in the exams', says Rubeena. Married at an early age, she didn't let things get her down. 'I wanted to make a difference and do something worthwhile in life. I was not content with doing household chores only'. Luckily her husband and in-laws shared her thinking, supporting her efforts to move ahead and leave a mark. Rubeena completed her graduation through a correspondence course.

'A girl can only think of becoming a doctor or a teacher here or just look for a government job. Her domain is limited', says Rubeena. Weighing her options and domestic compulsions, she decided she would tread a different path. When opportunity knocked at her door she was ready for it. A chance radio programme on commercial floriculture by an entrepreneurial institute gave her an idea. She joined the institute for training.

Soon she started a venture of cut flowers, setting up a unit for cultivating carnations under controlled conditions of temperature and humidity. Finance being a constraint, she turned to her family for support. 'Initially I took some help from my family. I took the land of my in-laws on lease but I needed more money to set up the unit. I then turned to J&K Bank for support'. With the loan from J&K Bank there was no looking back for her.

On the path to becoming a successful entrepreneur, she took it as a challenge to strike a balance between business and home. 'I make it a point to spend a lot of time with my kids. When it comes to my kids there is no concession. I have to give them the

time they need. Likewise a portion of my time is dedicated to business', she asserts.

For Rubeena the challenges were many and supporters, outside her family, few. 'People here, especially in rural areas don't accept a businesswoman. There are no solutions for such problems. The only way to solve them is to face them. You have to move ahead by pushing them to the limit'. Taking strength from her better half, who has been 'a pillar of support all through', she managed it all.

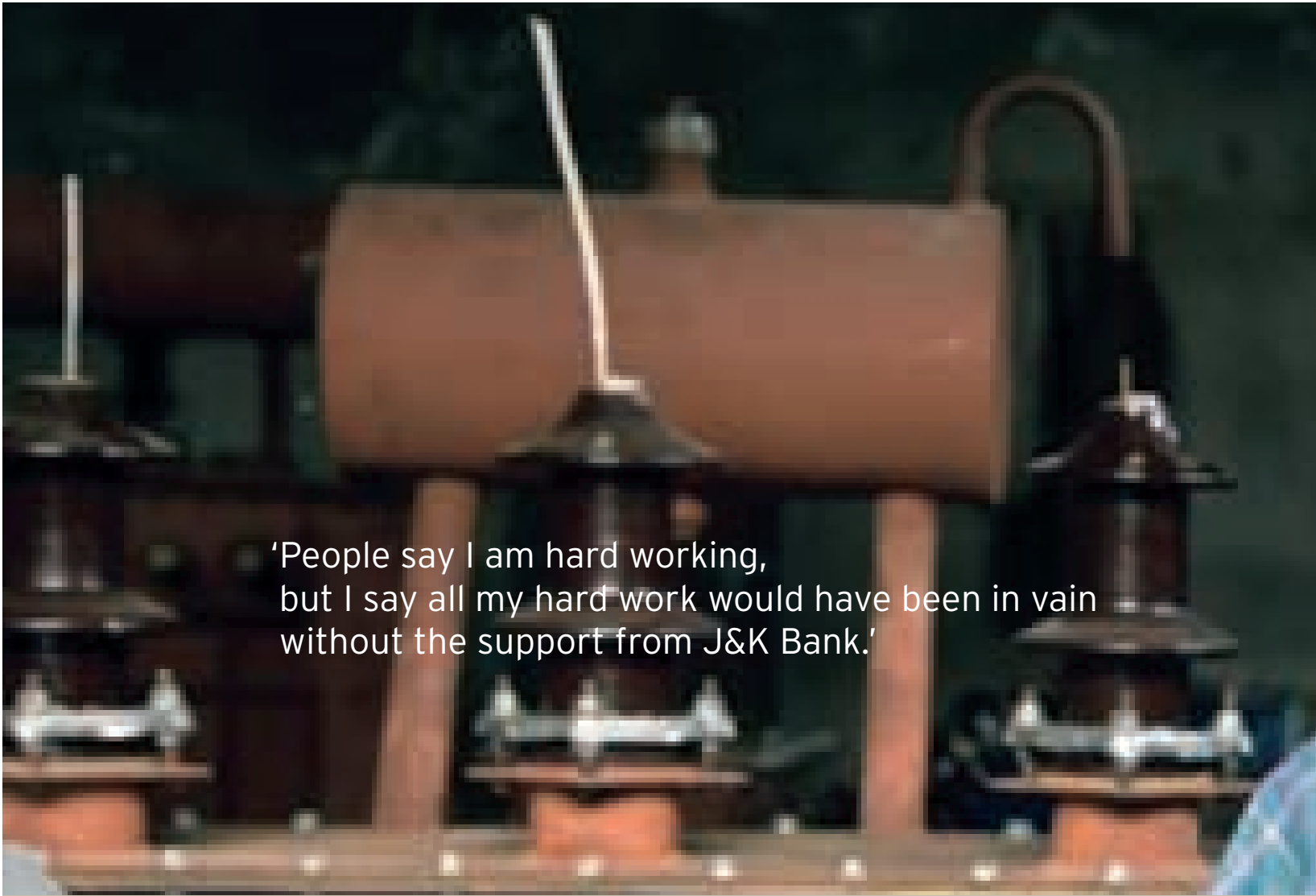
Starting initially with green houses for carnations in various colours, Rubeena quickly diversified once she realized the market potential. Today five green houses of carnations, lilies from Holland under shade nets, and an open field of Gladioli are in place. Her business is flourishing. The market for cut flowers is huge, especially outside the state where flowers are used on every occasion be it marriages, parties, functions or funerals. This year she has set up shade nets for lilies and has plans for cultivating aromatic and medicinal plants. For this, she has already started a nursery of lavender plants, that grows in hilly areas only.



Citing lack of awareness about entrepreneurial opportunities as a reason for growing unemployment she points out how she has been able to generating jobs for peasants. 'I feel proud of myself and regret the days I wished to become a doctor. I had never dreamt that I would do something that will bring me such laurels. The best thing about it is that it is a job-generating enterprise. I can provide employment to people.' Today she has five full-fledged employees besides a number of casual labour that she hires from time to time.

The ability to provide employment to people gives her deep satisfaction. 'There are many people who are so poor. I want to help them in earning their living. The traditional crops grown here are not so income generating. People don't get much benefit from them. I want to diversify their pattern of cultivating crops.'

An inspiration, especially to women, she says a woman can do miracles provided she is talented and courageous enough. Her ideology is that one should not just think of ones own employment but instead dream big of employing others as well. From being unemployed to employing others Rubeena has come a long way.



'People say I am hard working,  
but I say all my hard work would have been in vain  
without the support from J&K Bank.'

## Electrifying Success

Thank God for what I am today. I remember times when I could not afford even two meals a day'. That is how **Abdul Rahim Ahangar**, a tall, slender, bearded man, sums up the achievements of the last 50 years. A resident of village Sirhama in Anantnag, Abdul Rahim owns a transformer-manufacturing unit M/s Kashmir Electricals, at Bijbhera Industrial Estate, in Anantnag. A secondary school pass out, Rahim has been repairing electrical goods for the last thirty years. He recalls the time when he started working as a casual labourer with the Power Development Department in the early 1970's for Rs 3/- a day. Not able to make ends meet, he often went to bed without food. Later, he turned down the offer of a permanent job, 'There I was to serve tea to bosses and work at their homes', he laughs.



He then joined a workshop and worked as a mechanic for a few years before starting his own workshop for repairing electrical items. All this did not come easy, for he has no formal training and is self-taught, having spent hours poring over engineering books, which for some one with only an elementary school education was quite a challenge.

After a few years, Rahim came up with the idea of setting up a transformer manufacturing unit and approached the District Industrial Centre, Anantnag for assistance. Considering the viability of the project and Rahim's obvious commitment, he was allotted some land at the Industrial Estate, Bijbhera and his case was recommended to the J&K Bank's Bijbhera branch for financial assistance. The Bank after its usual checks, approved a working capital loan of Rs 2.00 lakhs besides a term loan of Rs 4.00 lakhs, in 1996.

Today, Rahim enjoys a working capital of Rs 10 lakhs, an indication of his growth. He pays around

Rs 50000/- as salary to his 10 employees and has involved his younger brother and son Gulam Nabi in his unit. M/s Kashmir Electricals manufactures around 50 transformers a year, which are supplied to the PDD. Lately, they have also started manufacturing servo stabilisers and panel control boards. Taking pride in the equipment he has recently purchased, Rahim discloses, 'People say I am hard working, but I say all my hard work would have been in vain without the support from J&K Bank.'

Having come this far, Abdul Rahim continues to strive, studying books on manufacturing of electrical appliances. His vision is to make Kashmir Electricals a state-of-the-art manufacturing unit for all kinds of electrical equipment. 'Of course all this is achievable only with the support of J&K Bank which I am sure will come as and when required,' he says optimistically.

# Fruits of Finance

Lean, vocal, and bearded, **Mohammad Abdullah Khan** looks a decade younger than he is. Modestly clad in a neat khan-dress under a black waistcoat, he is one of the most prosperous fruit-businessmen of village Hanjoora, located seven kilometres away from Chadoora area in Budgam District.

Not long ago, living in a joint family, he had to shoulder all the responsibilities of his home and hearth. Being the eldest son of family was both a financial and emotional challenge. The ongoing turmoil added to his anxieties. 'I continued with my traditional fruit growing that would fetch me just enough to meet the basic needs of my family. The future of our children appeared bleak and this hung heavily on us; soon I began to feel disgusted with my plight.'

At this point, the branch manager of J&K Bank, Chadoora advised Khan to avail the cash/credit facility on his current account as that showed better business prospects. Khan, after being convinced of the potential of his fruit orchards, availed the c/c limit of Rs 3 lakhs. There was no looking back after that. Today, Khan has emerged as one of the local heavyweights in the fruit business. His c/c limit has been enhanced to Rs 30 lakhs and he has added 20 more kanals to double his land holdings. He provides 24,000 working days to the locals when the fruit

season is at its peak. He exports more than 45,000 boxes of fruit worth Rs 1.20 crores annually to fruit-markets in Delhi, Mumbai, Bangalore, Ahmedabad, Ludhiana, Hyderabad, among others.

His eldest son, who has completed his MBBS but is yet to find the job, helps him in his fruit business. The second one is pursuing his graduation and Khan doesn't want to disturb him till the completion of studies that once seemed impossible. He has married off two daughters and the third one has completed her higher secondary education.

Counselled to take the situation head-on, he has successfully turned the tide of financial depression his family once faced. He attributes all his success to the caring advice and timely finance from what he calls 'JK Bank', a bond he forged more than two decades ago.

He exports more than 45,000 boxes of fruit worth Rs 1.20 crores annually to fruit-markets in Delhi, Mumbai, Bangalore, Ahmedabad, Ludhiana, Hyderabad, among others.



Afzal recalls the days when he and his brother had to mop floors. Today, they employ half-a-dozen people including an engineer.

## True Mobility

As one enters the posh Landmark Shopping Mall in Karan Nagar, Srinagar, one is captivated by the latest N-series Nokia mobile phones nicely lined up on show windows. The store Cell Well bustling with customers has half a dozen salesmen to attend them. On asking for **Mohammad Afzal**, one is directed to a small room where Afzal, a six-feet tall, handsome, and well-built man is busy repairing a mobile phone. A silver medalist in inter-university kayaking and canoeing, Afzal, along with younger brother Firdous, runs Cell Well, the only authorised Nokia Care Centre plus Nokia Priority Care showroom in the valley.

An electronics and communications engineer from erstwhile REC Srinagar, Afzal, 30, comes from a humble family in Kachri Mohalla, a tiny hamlet in Dal Lake. He says 'At a time when children of my age were sent for the lucrative work of carpet weaving, I was the first in the whole area to pass matriculation.' He attributes this achievement to his father whom he calls a visionary, 'who though illiterate himself, understood the value of education.' His younger brother Firdous gave up education due to financial constraints and instead had to support Afzal's education. Recruited by a company for a job in Delhi, he stayed back to start a coaching centre and also taught at a

private school. Realizing that teaching was not his calling, he moved to Delhi for a job before joining a Nokia repairing factory in Dubai in 2002. However, the Dubai sojourn was not long lasting. Giving reasons for returning from Dubai Afzal says 'Once I was married, I could take only half my family including my wife with me, leaving behind my parents and brothers who had done so much for me. This was not acceptable to me.'

Back in Kashmir, Afzal decided to start something on his own. He went to Delhi where he says, 'I spoke to the Nokia people about starting a showroom but realized that it involved a huge investment, from paying a fee to Nokia to finding space for showroom.' After some thought he decided to go ahead by selling his wife's ornaments for the requisite cash. When this did not prove sufficient he had to borrow cash. 'I went to one of the nationalized banks where the officials rejected the proposal without even going through it,' says Afzal. He was given no consideration citing different reasons that seemed 'very clumsy' to him. Completely frustrated he even considered giving up the idea.

However, the then head of the NS Road Branch of J&K Bank, came to his rescue. Seeing nothing wrong in the project, he approved a working capital of Rs 3.00 lakhs and a term loan

of Rs 3.00 lakhs in 2006. Afzal, while conceding that his venture would have never taken off without the support of J&K Bank, feels that while one can get finance from any bank, no other bnk can offer the emotional support that J&K Bank does. To substantiate this, Afzal recalls an incident. 'Once, when I could not produce an important document I broke down. I remember how all the staff members at the branch left their counters to console me for fifteen minutes. I was really moved by their affection.' He feels that it is only J&K Bank where every staff member acts as a guide, which makes it a real 'apna' bank for him.

Disinclined to reveal his exact income, Afzal divulges that he charges Rs 75/- for repairing a mobile and repairs around 50 of them each day, besides selling 10 new phones, making an average profit of Rs 200/- from each sale. Thanking God, Afzal recalls the days when he and his brother had to mop floors. Today, they employ half-a-dozen people including an engineer. Happy about clearing all his non-bank debts, Afzal is now planning an extension of his showroom. He dreams of owning a chain of Nokia showrooms in the future.



# Chairman's Statement

After decades of sluggish stability, the Indian banking industry has entered an eventful phase and looks poised for action. This is partly due to the requirements of Basel II, as well as the WTO-led financial services' liberalization; some of it will, of course, be driven by the Reserve Bank of India. If you add to this, the impact of market forces, the overall monetary scenario, the hardening of interest rates, higher provisioning, high capital inflows and consequent currency issues, you have a heady brew for banks.



There is consensus in the industry, that with all these exogenous changes converging on banks over the next two years, it is time Indian banks set their houses in order and work towards increasing efficiency and productivity so as to effectively compete with foreign banks. This is in fact the underlying message behind the various measures announced by the regulator during the last year or so.

This, however, seems a restricted, if not, myopic view. We believe that efficiency and productivity improvements are now par for course — even in the absence of such systemic changes, factor efficiency and productivity are required for survival and growth. Indian banks need to go much beyond this. What is needed is a business strategy that is rooted in the structure of the Indian economy; a lending policy that derives its logic from sources of growth in terms of enterprises, irrespective of their size; and a risk mitigation policy which goes beyond prudential measures and seeks to cover the business risk, in addition to credit risk and operational risk.

To do all this in a meaningful manner, for a structurally and geographically diverse economy like India, two things are required: firstly, region-specific credit policies that suit the sub-national growth impulses and context, and secondly, the productization of finance to suit local enterprises. At present the biggest structural problem in the banking sector is a high degree of mismatch between the need for and availability of credit. The obverse holds true for the liabilities side. Clearly, banks with regional dominance are best equipped to address this crisis. Domain knowledge, banking infrastructure, cultural moorings and social networks all work in their favour to deliver. It may well and truly be the beginning of a newer kind of financial institution where banking is a radically different high-street banking.

It may not be inappropriate to suggest that the future structure of the Indian banking sector is going to be bipolar. At one end, we will have large banks that will increase their size through an aggressive M&A policy.

This will be aided, in no small measure, by the Reserve Bank's roadmap of liberalization wherein foreign banks will be able to freely expand their branch network as well as acquire Indian banks after March 2009. Further, existing foreign banks will be able to convert their branches into wholly owned subsidiaries and new foreign banks will enter through this route. Indeed, some banks are already positioning themselves as ideal takeover targets. As such, there is bound to be some serious consolidation, with or without foreign banks.

At the other end of the spectrum, will be the smaller banks — focused and niche players — with regional dominance. Their strategy will simply be one of organic growth and they will function as banking verticals with defined slivers of business. Given that growth and employment in the Indian economy is coming disproportionately from the SMEs and the informal segment, these banks, if they have their strategy right, should out perform. In all this, however, the muddled middle of the banking sector will in all likelihood get squeezed.

It is in anticipation of precisely this kind of a global and national scenario, that we are contextualizing changes at the Jammu and Kashmir Bank. We see ourselves as a Bank with a regional focus, a national reach and international standards of operations. The year 2006-07 was dedicated to re-engineering the organization on all fronts. The bank successfully re-invented itself as the most socially-relevant commercial bank for economy and business in J&K. This provided the overall context as well as the framework for all changes that have been brought about in the organization. Be it the aligning of HR systems and policies to business needs, or the administrative setup of the Bank or business development processes, the underlying theme has been to financially

mine J&K. In other words, we have moved from administration of business to business development.

In the second year of our strategic shift — in approach, attitude and activity — customer centricity has become the *raison d'être* for financial institutions globally. So it has been for us, as well. In our case, however, it was the catalyst for business innovation, which in turn drove top line and bottom line growth.

In response to our strategy of looking inwards within J&K, the Bank has pressed ahead with customer-focused, innovative methods to optimize business processes, consolidate IT systems and simplify customer services, while complying with regulatory norms and enhancing security. In an effort to keep our house in order, we not only carried out business processes' management, but also created a business-oriented architecture for our organization.

Our productization strategy was based on a deep knowledge of domestic industry, crafts and businesses in J&K. It helped us address business needs and achieve positive, measurable ROI. This new, focused strategy helped provide a consistent enterprise view, facilitate transformation, bring best-practice workflows and increase operational efficiency. The entire logic of product development has been to establish viable interlinkages of credit with income-generating patterns as well as other factor or output markets. This link is usually missing in economies like that of J&K.

During the course of the year, J&K Bank became a factory of innovation in product design. For us, new financial products come about because people in the economy find them useful. If you look at the stream of new products launched by J&K Bank, you will see a common thread in their design

and development: they fulfill the basic economic objectives of people in the local economy. The key ingredients of all our new products are a building-block approach to obtaining low-cost implementation of new products and a cascade of innovation, in which the innovations all reinforce each other.

This process of productization brings with it a demand for more robust operational processes and technology solutions as the appraisal and monitoring become a lot more complex. The technology support for this does not mean just bolting-on additional functionality. Rather, it requires a complete review of the firm's internal processes. This had to be done simultaneously. By blending these with technology, we have been able to increase our reach and enhance service quality in a cost-effective manner. The next steps, that will make us global in our offering, will be to incorporate risk-mitigation measures within the product design itself as well as the productization of services. These will be accomplished by associating tangible features with intangible service offerings. Tangible features, taking the form of personnel, collateral, methodologies, pricing, facilities, or other attributes, will be enabled by automation tools like enterprise service automation, database, and project management tools. By associating tangible features with intangible services, the J&K Bank will be a complete, professional financial services company.

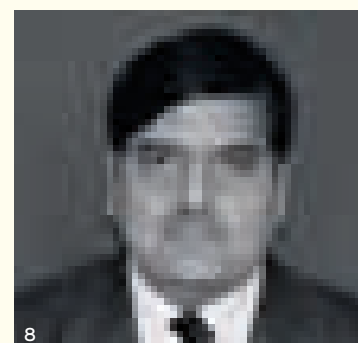
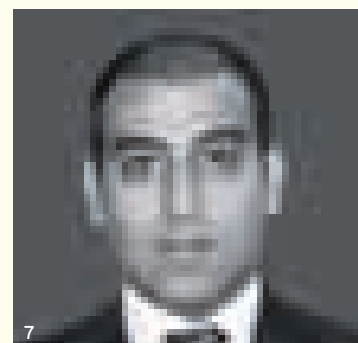
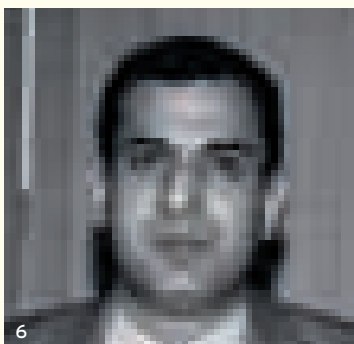
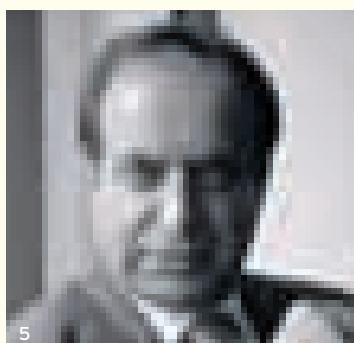
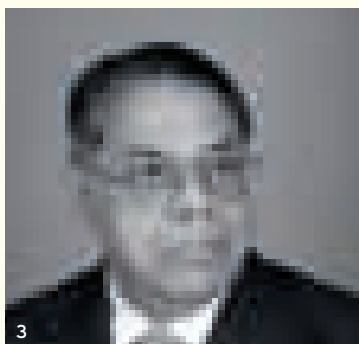
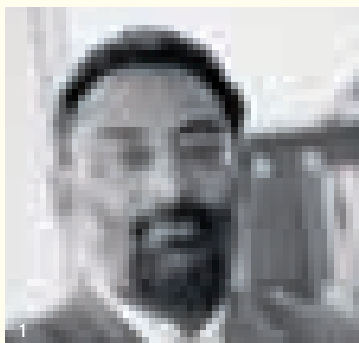
Once productized and marketed in this frame of reference, micro-finance and agri-finance is not just a regulatory obligation, it is a profitable venture. And in a closed economy like J&K, this profitability spans various dimensions. It generates incomes in the SME segment and also drives enterprises up the value chain, as well as up the ladder of evolution.

This creates a climate for higher income generation as well as better financial intermediation, in the process strengthening our core business.

It bears stating that there are not many banks in the world that can combine the best of public ownership — stability and safety, with the best of private functioning — efficiency and growth; fewer still that have an exclusive geographical area to operate in; and hardly any bank with a dedicated community. The J&K Bank has all three. Further with a turnover of US\$ 10 billion, the impact of J&K Bank on the economy of J&K, that has a gross state domestic product of US\$ 6 billion, is enormous. The business strategy of the bank is to leverage precisely this uniqueness, by aligning its growth with the empowerment of its customers and the people of J&K. Through our business, the Bank is enabling empowerment of local enterprise so that they, in turn, help themselves and in doing so, help us to achieve our goals. This will set in place a mutually reinforcing virtuous cycle of growth for the bank and enhance not only its structural uniqueness but also its long term profitability and growth.

Haseeb A Drabu  
Chairman & Chief Executive

# Board Of Directors



**1 Haseeb A Drabu**  
Chairman

**2 M S Verma**  
Director on the Board

**3 G P Gupta**  
Director on the Board

**4 B L Dogra**  
Director on the Board

**5 Abdul Rauf Fazili**  
Executive Director

**6 M Yaseen Mir**  
Director on the Board

**7 Umar Khurshid Trambo**  
Director on the Board

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

**9 Mushtaq Ahmed**  
Executive Director



# Executive Committee

**1 Haseeb A Drabu**  
Chairman & Chief Executive

**2 Abdul Rauf Fazili**  
Executive Director

**3 Mushtaq Ahmed**  
Executive Director

**4 A K Mehta**  
Chief Peoples Officer

**5 Manzoor A Shah**  
Chief Strategist

**6 N D Samnani**  
Chief Liability Officer

**7 N A Koul**  
Chief Credit Officer

**8 Abdul Majid Mir**  
Chief Finance Officer



**Chief Legal Officer / Regulator**  
Ajit Singh

**Vice Presidents**  
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

**Company Secretary / Vice President**  
Parvez Ahmed Nengroo

**Auditors**  
Gupta Gupta & Associates  
Chartered Accountants

Gupta Sharma & Associates  
Chartered Accountants

Baweja & Kaul  
Chartered Accountants

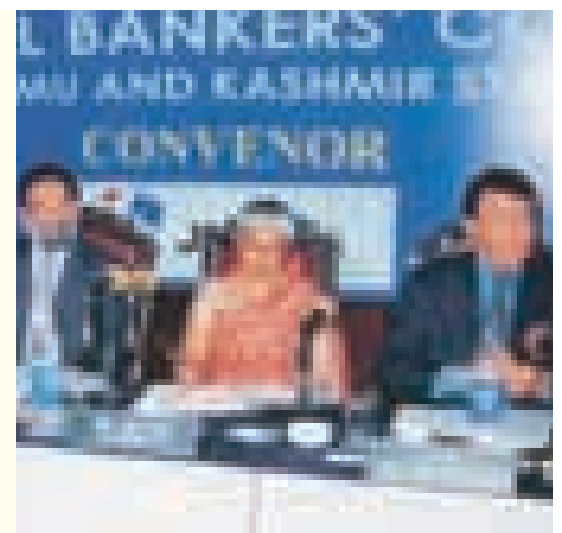
**Registered Office**  
M A Road  
Srinagar 190 001  
Jammu & Kashmir

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

# Events

1	2	3
4	5	6
7		8
9	10	11

- 1 68th Annual General Meeting of the Bank
- 2 68th Annual General Meeting of the Bank
- 3 Deputy Governor, RBI, Smt Usha Thorat presiding over SLBC meeting
- 4 Hon'ble Chief Minister, Shri Ghulam Nabi Azad, unveiling the new logo of the Bank. Also in the picture, the then Deputy Chief Minister, Shri Muzaffar Hussain Beig and Haseeb A Drabu, Chairman & Chief Executive of the Bank
- 5 Hon'ble Chief Minister, Shri Ghulam Nabi Azad speaking on the eve of logo launch
- 6 Chairman speaking on the launch of the Bank's new logo
- 7 Distinguished guests on the occasion of the logo launch
- 8 Microfinance Initiative of the Bank. Small loans to vegetable vendors at Jammu, Smt. Usha Tharot, interacting with vendors
- 9 Mr. Abhay Aima – Country Head-Equity at the Markets-HDFC Bank speaking Investor Awareness Programme organized by the Bank
- 10 J&K Bank Heritage Preservation Initiative. Release of Music CD by Mrs. Shameem Azad, (wife of Hon'ble Chief Minister)
- 11 J&K Bank Woman Entrepreneur of the Year Award, presented to Rubeena Tabasum—a budding floriculture entrepreneur





# Financials 2006-07

# Directors' Report

Dear Members,

Your Directors have pleasure in presenting the Sixty Ninth Annual Report of your Bank with the audited Balance Sheet, Profit & Loss account and the report on business and operations for the year ended March 31, 2007 (FY07).

## **CAPITAL & RESERVES**

The Capital and Reserves of the Bank increased to Rs. 2008.73 crore as on 31st March 2007 from Rs. 1799.47 crore of the previous year.

## **PROFIT**

The Bank posted a net profit of Rs.274.49 crore for the year 2006-07 against a figure of Rs. 176.84 crore in 2005-06 registering a impressive growth of 55.22%.

## **INCOME**

The Bank continued to register an impressive year-on-year improvement in earnings. During the year, the total income has increased by 13.34% to Rs. 2059.54 crore from Rs. 1817.10 crore of the previous year.

## **NET INTEREST INCOME**

During the year our net interest income continued to record a consistent growth. It increased by 15.69% at Rs. 767.84 crore for the year under report. The growth has been driven by increase in credit operations of the Bank besides reduced cost of deposit achieved through improved CASA ratio.

## **CAPITAL ADEQUACY RATIO (CAR)**

The Bank's Capital Adequacy Ratio (CAR) continued to be at a comfortable level of 13.24% as on 31st March 2007. The Bank does not foresee any major impact on CAR on implementation of Basel II norms.

## **DIVIDEND**

In view of the appreciable performance of the Bank the Directors are pleased to recommend a dividend of 115% (free of tax) for the year ended March 31, 2007, subject to approval of shareholders.

## **BUSINESS PERFORMANCE**

During 2006-07, the operating revenue of the Bank, increased by 13.34% to Rs. 2059.54 crore from Rs. 1817.10 crore in 2005-06. The Bank achieved a business turnover of Rs. 42274.24 crore from Rs. 37967.75 crore of the previous year recording a growth of 11.34%. During the year, there was an improvement in operational efficiency, which is reflected in the decline of the cost: income ratio to 40.13% from 44.57% in 2005-06.

## **DEPOSITS**

The aggregate deposits of the Bank increased by Rs.1709.66 crore to Rs. 25194.29 crore as on 31st March 2007 recording a growth of 7.28%. The deposits mix has shown improvement with a focused attention on liability management contributing in increased low cost CASA ratio to 37%.

## **ADVANCES**

During 2006-07, the aggregate advances of the bank reached Rs. 17080 crore registering a growth of 17.93%. Notable feature is that the Bank recorded a growth of 23.08% in credit deployment in J&K during the year under report. The yield on advances has increased by 10 basis points to 8.58% from 8.48% of the previous year.

## **FOREIGN EXCHANGE**

The contribution from foreign exchange business to the Bank's gross income has been to the tune of Rs. 36.98 crore. The Forex Dealing Room at Treasury Operations recorded a turnover of Rs. 22573.58 crore and generated a net earning of Rs. 8.84 crore against Rs. 7.39 crore of the previous year, thus registering an increase of 19.57%.

## Directors' Report ...

### INVESTMENTS

The Bank's total investments stood at Rs. 7392.19 crore as on 31st March 2007 against Rs. 8993.84 crore of the previous year. The decrease in portfolio is due to conscious stance taken by the Bank to contain MTM losses and also reduce the duration of the portfolio.

### NON- PERFORMING ASSETS

The net NPAs as a percentage of net assets stood at 1.13% as on 31st March 2007 and NPA coverage ratio was maintained at over 60% at 61.43% .

### IT INITIATIVES IN FY07

With a view to provide greater convenience and alternate channels to the customers, your bank launched a slew of IT initiatives during the year. These include:

- Interconnectivity of over 280 branches
- Total number of ATMs increased to 191
- Number of branches/offices rolled over to Core Banking Solution - 33 raising the total number of CBS branches to 161.
- Number of RTGS enabled branches through Treasury Office Mumbai-12
- Number of debit cards issued reached to 2,60,991
- Number of Point Of Sale Terminals installed increased to 827

The Card Issuing and Acquiring department has started in-house development and deployment of Automated Debit Card Requisition Software application over intranet and Reconciliation Software for MasterCard Domestic/International Transactions & National Financial Switch (NFS) transactions. To push up the credit card base, the bank also outsourced marketing of Credit Cards.

### CHANNELS OF DISTRIBUTION

Out of a total of 520 branches (including extension counters), 329 branches are in semi urban and rural areas. This reach, especially in district headquarters, small towns and remote areas, is expected to sustain the momentum of the Bank's growth in business, particularly that of low cost deposits as well as advances to the SME and agriculture sectors. The ATM network of the Bank has increased to 191, and today constitutes the largest ATM network in J&K. The Bank has increased its Debit/Credit card base to 266072 against 206719 of the previous year. The number of Point Of Sale Terminals installed by the Bank as on 31st March 2007 has gone up to 827 almost double when compared to previous year.

The Bank offers virtual banking / Internet banking facility to its customers maintaining accounts with Core Banking Solution Branches.

### PRODUCTIVITY

The productivity levels have shown appreciable increase during the year: while the profit per employee has increased to Rs. 4 lacs from Rs. 3 lacs last year, during the same period the business per employee has also shown a remarkable increase at Rs. 5.85 crore. The Bank has shown healthy growth in per branch business which stood at Rs. 9373 lakhs as on 31.03.07 against Rs. 7386.72 lakhs of the previous year.

In tune with the Bank's strategy to focus on sales and marketing of Bank's services and products, your Bank brought about structural changes in the existing operational organizational structure at zonal level during the year under report. The District Offices were abolished and converted into Business Development and Promotion Centers with their job roles confined to promotion and sale of Bank's services and products. Six new zones were created carved out of the existing four zones raising the total zonal offices to ten. Two new zones each have been created in Jammu and Kashmir and one each in Delhi & Mumbai to bring about efficiency in management, control and business operations.

### DEPOSITORY PARTICIPATION

The Bank continues to be depository participant of National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) with total depository accounts of 23795. The value of the securities held in different demat accounts stood at Rs. 8277.26 crores.

### DISTRIBUTION OF INSURANCE BUSINESS

The bank acting as corporate agent of MetLife collected an annual premium of Rs. 41.92 crore in Life insurance during the year under

report generating a total income of Rs. 7.17 crore. In non-life segment the Bank was able to muster Rs. 4.76 crore during the year 2006-07. The bank recorded a growth of 66.07% in Insurance business income during the year under report.

#### **LEAD BANK RESPONSIBILITY**

Your Bank is the only Private Sector Bank entrusted with the responsibility of Convening State Level Bankers' Committee meetings. 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 during the year 2006-07. The block and district level meetings such as BLBC, DCC and DLRC were held as per schedule in all the lead districts. The district credit plans were prepared in time and their implementation monitored closely at the State and district Levels.

#### **REGIONAL RURAL BANKS**

The performance of two Regional Rural Banks sponsored by the Bank as per un-audited figures has been quite satisfactory. The deposits of Jammu Rural Bank have increased by Rs. 35.41 crore from Rs. 614.76 crore as on 31-3-2006 to Rs. 650.17 crore as on 31-03-2007. Advances have increased from Rs. 161.26 crore as on 31-3-2006 to Rs. 192.19 crore as on 31-3-2007. The Bank has registered an operating profit of Rs. 6.78 crore during the period under report.

The deposits of Kamraz Rural Bank have increased by Rs. 25.42 crore during the year from Rs. 321.71 crore of last year to Rs. 347.13 crore as on 31-03-2007. The Gross Advances have increased from Rs. 60.87 crore as on 31-3-2006 to Rs. 75.00 crore as on 31-3-2007.

#### **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**

Your bank has kept itself abreast with the changes taking place in banking sector and guidelines of RBI and established well-documented system of checks and balances. All branches and offices are subject to various types of Inspection & Audits including Risk Based Internal Audit, Information System Audit, Concurrent Audit, Income Audit, SNAP audit and Statutory Audit.

#### **CORPORATE GOVERNANCE**

J&K Bank has established a tradition of best practice in corporate governance. The corporate governance philosophy encompasses not only regulatory and legal requirements, such as terms of listing agreement with stock exchanges, but also several voluntary practices aimed at a high level of business ethics, effective supervision and enhancement of value to all stakeholders.

Several matters have been voluntarily included in the statement on Corporate Governance annexed to this report besides certificate 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 along with 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 and the profit/loss at the end of the financial year under report;
- 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, 2007, ARE AS UNDER:

## Directors' Report ...

- A) EMPLOYED THROUGHOUT THE FINANCIAL YEAR AND IN RECEIPT OF REMUNERATION AGGREGATING RS. 24,00,000/- OR MORE PER ANNUM

Name and Age (Years)	<b>Haseeb A. Drabu (46)</b>
Designation Nature of duties	Chairman & CEO
Remuneration	Rs. 28,08,000
Qualification	M & D.Phil Economics
Experience (years)	16 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.

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

-----NIL-----

### BOARD OF DIRECTORS

Pursuant to the approval accorded by the Reserve Bank Of India, Mr. Mushtaq Ahmad, assumed the charge of Executive Director of the Bank w. e. f 29th December 2006.

With a view to broad base the Board, eminent personalities – Mayashanker Verma and G P Gupta were re-appointed as additional Directors of the Bank. The Bank has immensely benefited from their rich and varied experience.

Mr. Mohd. Yaseen Mir 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.

### NAME OF THE BOARD OF DIRECTORS

1. Haseeb A. Drabu	<b>Chairman &amp; Ceo</b>
2. M.S. Verma	<b>Director</b>
3. G.P. Gupta	<b>Director</b>
4. B.B. Vyas, Ias	<b>Director</b>
5. Abdul Rauf Fazili	<b>Executive Director</b>
6. Mushtaq Ahmad	<b>Executive Director</b>
7. Mohd.Yaseen Mir	<b>Director</b>
8. B.L. Dogra	<b>Director</b>
9. Umar Khurshid Tramboo	<b>Director</b>

### 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 thank the customers and shareholders of the Bank for their unstinted support and patronage. The Directors place on record appreciation for the work done by the members of the staff at different levels, which enabled the Bank to record enviable growth and stabilize 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: 7th May, 2007

# Management Discussion and Analysis

## PERSPECTIVE

1. With the new business strategy taking deeper roots, the impact of the national macro-economic growth, monetary policy, and sub-national economic performance on the Bank needs to be redefined.
2. With the J&K region driving growth of the Bank, the economic performance of the state becomes a far more important factor, whereas the growth in rest of the country has a relatively diluted impact. To that extent, while the national policy situation provides the environment within which the J&K bank performs, it is the state economy that is giving it a context.

## MACROECONOMIC DEVELOPMENTS DURING 2006-07 AND THEIR AFTERMATH

1. On the face of it, with a 9.2 per cent growth in GDP and near 30 per cent growth in bank credit to the commercial sector, 2006-2007 must have been a good, if not a great year, for the banking sector. Quite to the contrary, in the middle of 2006-2007, early signs of overheating, rising inflation and unanticipated monetary expansion were becoming evident.
2. As the year rolled, these trends got compounded by sectoral issues, in particular in the banking sector. With asset growth outstripping liability growth by an ever-increasing margin, pressure built up in the money markets. The thinking at Reserve Bank was clear: excess liquidity in the system has been resulting in easy credit and lower interest rates. This had generated demand, fuelled speculation, overheated the system and generated inflation.
3. As such, RBI first took preemptive corrective action followed by more stringent measures that decisively changed the interest rate regime and altered the liquidity conditions to the verge of signaling a contractionary monetary policy. First round of hikes was for banking sector reasons and second round for macroeconomic reasons.
4. The Repo rate was hiked to 7.75% from 6.25% (5 increases of 25 bp each) to make borrowing by banks from RBI against securities costlier. The interest rate corridor was widened by a lower increase in the reverse repo rate to 6%, thereby widening the gap between repo and reverse repo rates to 1.75% from the erstwhile 1%. CRR was hiked from 5% to 6.5% to suck out liquidity from the system.
5. Reserve Bank of India Act, 1949 was amended in June 2006 with a view to enhancing Reserve Bank's operational flexibility and providing it with greater maneuverability in monetary management. Consequent to this amendment, RBI announced removal of floor of 3% and ceiling of 20% for CRR and also withdrew interest payment on CRR balances with effect from June 24, 2006.
6. However, in January 2007, RBI restored the ceiling and floor limits and decided to pay interest on eligible CRR balance at a gradually decreased rate from June 2006 to March 2007. Provisioning requirement for standard assets in real estate, capital market, consumer loans and non-deposit taking NBFCs were increased to 2% from 1% and 0.4%.
7. Almost going back in time, selective credit controls were used in a surrogate manner by increasing the risk weights for exposures in sensitive sectors. Interest rate ceiling on NRE and FCNR(B) deposits were reduced by 50 bp and 25 bp respectively and lending against these deposits was capped at Rs. 2 million.
8. The money and debt markets went into a turmoil. Short term rates took a spurt and the G.Sec yield curve flattened as spreads on the one year G Sec and the benchmark ten year narrowed down. The 10 year G Sec traded at a high YTM of 8.37% on 12 July 2006 whereas the low was recorded @ 7.33% on 19 April 2006. The average yield of 10 yr GSec was 7.77%. Intermittent liquidity crunches were felt in the system immediately after the increase in CRR limits and tax outflows. Inter-bank call money rates recorded an intraday high of 62.5% on 21 March 2007 but subsequently stabilized at 5% levels by the end of the year. However, the average call money rate for the year was higher at 7.05%.
9. Within its own framework of analysis, there is not much that one can disagree with. It is open for debate, though, that was it necessary to combine liquidity tightening measure with a interest rate hike or should RBI simply have tightened the liquidity – perhaps more aggressively – and let the market push the rates up.
10. The task of monetary management was made much more complicated and difficult in view of the third element – capital inflows. Thus three balls had to be balanced: monetary growth, sterilisation and rupee appreciation. The capital inflows continued unabated and to a large extent neutralized the monetary tightening, policy initiatives of slowing down credit growth. The ample supply of foreign currency on account of capital inflows and borrowing in foreign currency by corporates without hedging resulted in appreciation of rupee and adversely affected exports. The rupee is trading at a five year high against the dollar. Future monetary policy and liquidity management will be hinged on how RBI chooses to handle exchange rate.

## Management Discussion and Analysis ...

11. The question that remains is whether these measures would be adequate to curb inflation and whether they would have collateral effects that affect the growth in 2007-2008.
12. From the slew of measures initiated by RBI, it is evident that it believes that the high growth in economy was driven by debt-financed consumption and housing spending. That these inevitably involve bringing risky borrowers into the lending and splurging net is a subsidiary point. If this is indeed so, RBI should have no problems if this growth slows down. In fact, it may even be desirable that this happens.
13. Towards the end of the year, there was complete consensus that there will be a correction. It is unlikely that the correction in the coming year will be sharp for several key drivers for the Indian economy, albeit at a lower level of impact, that include addition to industrial capacity, expanding demand for consumer durables and export growth. Thus despite an adverse monetary policy, momentum should ensure a soft landing such that for fiscal 2007-08, the Indian economy should expand by 7.5 to 8 percent.
14. In view of this, the major impact of the monetary policy measures was sectoral. All banks increased their deposit and lending rates. The deposit rates of over one year deposits were increased from 5.75-7.25% to 7.25-9.50% while the benchmark prime lending rates were increased from 10-14% to 12-16.5%. Tightening of liquidity conditions towards the end of the fiscal and credit commitments compelled the banks to offer very high rates on short term deposits to cover liquidity mismatches. The occasional spells of tightness necessitated injection of liquidity by RBI into the system through liquidity adjustment facility (LAF).
15. The daily average absorption by RBI through reverse repo declined from Rs. 51,490 crores in the first quarter to Rs. 36,857 crores in the second and further to Rs. 6,795 crores in the third quarter of 2006-07. RBI had to inject daily average liquidity of Rs. 7,582 crores through repo in the last quarter. The interest margins of the banks were subjected to pressure owing to higher increase in interest rates on term deposits and the trading books were subject to depreciation due to hardening yields.
16. At the end, the operative facts are that we have moved to a higher interest rate regime and though not staring at a slowdown, a lower rate and changed sectoral composition of growth is in the offing. This could have unfavourable impact on the banking sector growth in 2007-2008.

### MANAGEMENT DECISIONS AND STRATEGY – GROWTH PLANNING

17. The management during the course of the year proactively managed the bank's transition to a high interest rate regime. Not only was the cost of deposit lower than last year, the bank improved its margins when for the industry as a whole these came under a severe squeeze. This was done by anticipating rate hikes, re-pricing the existing asset book and moving totally to a floating interest rate structure. This along with liability management was the major focus of our operational management.
18. The phase of consolidation and leveraging the balance sheet, which was our strategy as outlined last year, was completed in the course of this year. At the end March 2007, the bank has a fully leveraged and transparent well-balanced balance sheet. The major gains of our strategy of consolidation have been an insulation of the investment book from losses, reduction of MTM losses on trading book and higher provisioning. It has also resulted in a sharp increase in the yield on advances, return on equity and return on assets. The thrust on liability management resulted in the improvement in the CASA ratio which is currently at 37% against 34% as at 31 March, 2006.
19. Most of these improvements are riding on the back of a new focus on J&K to provide global quality financial solutions to all the people in the state, to play a developmental role and to meet the needs of local entrepreneurs which are not provided in the traditional banking system. By tailoring our banking to the requirements of the state economy, we have been able to improve the financial deepening of the economy of J&K and also increase our lending to underserved areas like horticulture, floriculture and crafts. We have managed to get artisans, weavers and traders into the ambit of formal finance. Financial models have already been devised to meet the specific financial needs of these productive sectors of the state. The models for implementation have been designed on the basis of customers' banking needs hierarchy i.e. starting from polite and respectful service to efficient, responsible and helpful service through specialized and innovative schemes.
20. Along with changing the business strategy, the management of the Bank also made changes in the support services to move the institution from an old generation mindset and look and feel to a new generation private sector bank. Despite having played a significant developmental role and continued participation and partnership in the history of Jammu & Kashmir, the Bank had not positioned its brand and identity. It was, as such, taken up as a core initiative and the bank ventured to market its brand and reposition itself in the changing scenario.

21. As a first step of the image makeover, the new logo supported with a revamped business strategy and organizational structure was launched. It was aimed at bringing about an improvement in the bank's work culture and attitude towards the state and the customers. The logo colours - Green, Blue and Red – on the one hand symbolize the synchronization of the three regions of the state – Jammu, Kashmir and Ladakh – and on the other are reflective of the business visions of the institution viz. Growth and Renewal, Stability and Unity, Energy and Power.
22. The management of J&K Bank is committed to making the organization a model employer and ensuring that the bank provides a work place, work culture and work environment that engages the intellectual and emotional commitment of all employees. Through various employee-oriented measures, the bank has achieved a real competitive advantage by nurturing its most valuable assets – the workforce. The bank has embarked on a journey that will culminate in the organization being an 'employer of choice', not only in the state but also in the country and the region.
23. The bank has already initiated concrete steps towards achievement of the desired goals by:
  - i. Formation of a task force for managing change initiatives.
  - ii. Transformation of HR systems through rewards for competency / performance coupled with opportunities for growth of the workforce through training and up gradation of skills.
  - iii. Setting up of performance management system to monitor individual contributions to group achievements and inclusion of customer service as a criterion for performance evaluation.
  - iv. Setting up of model branches equipped with state of art technology, which will function as a one-stop shop for all financial / banking products, insurance, demat accounts, mutual funds to name a few. In these branches services for government business will be segregated from general business for better service to the latter. The model branches will also provide advisory services and ensure quick processing.
  - v. Opening of more delivery channels for customer service, which include ATM, internet banking, SMS banking, fund transfer through RTGS, NEFT, point-of-sale (POS) terminals, multi tasking of ATMs for bill payments, mobile vans for door-to-door banking, etc.

## CONTEXT FOR CHANGE

24. All these – in the business strategy, organization set up, HR policies and business development systems – changes have been introduced in the J&K Bank at a time when high growth markets, increasing cost pressures, competition for liabilities from other financial institutions like mutual funds and the trend towards consolidation is putting additional pressure on the operating models of all banks and is raising questions about the durability of their strategies for growth and value creation.
25. So, the larger context for our strategy is informed by our understanding of what the future of the high-street or retail banking industry will look like in the next decade? How will banks — large, medium and small — continue to grow revenues and remain profitable? What will it take to create and maintain advantage as the industry opens its boundaries and becomes highly competitive? An examination of the forces shaping the industry suggests that those institutions most adept at harnessing product, service and process innovation to anticipate and meet customer needs will attain its leadership. All banks will have to specialise and focus on their core strengths – those activities in which they excel – and partner with best-in-class specialists for everything else. This strategy should address both growth and cost-containment objectives.
26. In less than a decade from now, mergers and acquisitions will likely have reduced the total number of banks, especially mid-size banks. Industry specialists and non-bank financial institutions will play a more prominent role. Global names will be present but success will not come easily as they compete with established local players having strong distribution networks and a much superior understanding of local cultural needs.
27. Most of today's players will be vying to differentiate themselves in a crowded marketplace. However, traditional approaches to creating value through growth and efficiency will no longer be enough. Advantages gained through acquisition, new market entry and reconfigured product offerings will become differentiators.
28. By 2015, the combined implications of these trends will create an environment in which nothing less than sharp focus and excellence in day-to-day operations will be acceptable, and banks will have to generate growth through continuous innovation or be left behind. Two mega trends will shape the industry:

## Management Discussion and Analysis ...

- i). Pronounced shifts in income levels, use of technology and advanced search and benchmarking tools, attitudes and behaviours, in addition to ubiquitous information are giving customers the power to demand much greater responsiveness and transparency from their banks. This together with existing low level of financial intermediation and poverty in J&K and the growing inequalities in wealth will require very different strategies and cost structures for banks to develop and retain loyal customers and grow profitably.
  - ii). The low per capita income levels for the majority of the population will require low price points for all products and services over the next several years. For the purpose of banking the unbanked segments, new delivery strategies will have to evolved to serve the unique needs of this region – low cost ATMs which can work without air conditioning, co-existence of banks and auto dealers under the same roof, micro financing in concert with the village “sarpanch” using a shared franchise and risk model, together with a direct sales model geared towards supporting remote villages lacking connectivity to the main commercial hubs.
29. In our view, the ultra-focused niche players thrive. Large players will generate higher aggregate profits by reaping the benefits of super scale, while niche players will aggressively pursue the most desirable customers by addressing their needs in distinct ways – those in the middle will get squeezed. Margins will in many cases be more favourable for smaller players and the specialized ones leveraging flexible componentized operating models than those that do not embrace the competitive advantages afforded by the smart use of technology. In addition banks will work and demand more from technology providers to match the lower cost base of the region. This will be true in the largest markets in the region as represented by China, India and several of the ASEAN countries as opposed to the more affluent nations of Singapore and South Korea.
30. In a nutshell, the industry is confronted with a classic strategic issue; banks must choose between the relative merits of doing a majority of the tasks in-house or risk losing competitive advantage as another group of institutions will look to creating high margin businesses through a strategy of aggressive partnering with providers of services. This latter strategy will allow banks to align scarce resources around products, risk management and customer care innovation.

### OVERVIEW OF PERFORMANCE OF THE BANK DURING 2006-07

#### Business & Profitability

31. During 2006-07, the bank recorded a planned and directed growth of 11.34% in the business, which increased to Rs. 42,274 Crores. Deposits recorded a growth of 7.28% while advances increased by 17.93% to Rs. 17,080 Crores. Better liability management resulted in the bank mobilizing more demand and savings deposits (16.24% Y.O.Y.) than time deposits against the overall trend in the industry.
32. Net profit, on the back of improved liability management, high margin lending and reduction in MTM losses, recorded an impressive growth of 55.22%. The bank continued to create shareholder value, as a result of which earnings per share during 2006-07 increased to Rs. 56.62 from Rs. 36.48 in 2005-06, while the book-value per share increased from Rs. 371.20 as on March 2006 to Rs. 414.30 as on March 2007. The market one-year return on JK bank equity shares for 2006-07 at over 40% outperformed the BSE annual return of 16% by quite a margin.
33. Comparative key financial ratios for 2005-06 and 2006-07 are given at the end of this report.

#### Customer Service

34. The bank continued its emphasis on maintaining high standards of service to its customers. In this direction, the bank introduced various hi-tech and customer friendly products during the year, providing value added services to achieve customer satisfaction. Customer complaints received are dealt promptly and expeditiously. The bank is a member of the Banking Codes and Standards Board of India and has adopted 'Code of Bank's Commitment to Customers', a voluntary code providing protection and 'Right to Know' to the customers. The bank has established a 24 X 7 help desk to address customer queries and the desk is slated to be converted into a full fledged call centre in 2007-08. The bank is also keenly pursuing for ISO 9000 certification for its customer service.
35. The bank has revamped its delivery channels and added 'Business Development and Promotion Centres' (BDPCs) with an aim to get closer to and provide hassle-free service to the customers. Marketing managers and business promotion officers have been placed in all the zones for execution of the marketing initiatives.

### New Products Launched during 2006-07

36. In synchronization with the Bank's new strategy focus on increasing lending and financial deepening of economy in J&K State, a host of new products customized and tailored to the requirements of customers were designed and launched. Some of these products are:
- All purpose Agri-Term Loan.
  - JKBank Term Loan for B.Ed / M.Ed Courses.
  - Housing Loan for Leh.
  - Tax Saver Term Deposit Scheme.
  - Smart Saver.
  - Naunihalon Ka Naya Savera.
  - Used-Car Loan.
  - Value Added Current accounts.

### Financial Inclusion

37. As conveyed through brand and logo, the bank has adopted the mission 'Serving to Empower'. It is basically aimed at bringing within its fold the individuals, areas and the segments which have remained unserved and ignored, hitherto. The bank had initiated adoption of areas for financial inclusion well before the guidelines were issued by Reserve Bank of India under the Lead Bank Scheme in this context. The bank adopted two blocks – **Ganderbal** from Kashmir Division and **R S Pora** from Jammu division – during 2006-07 for financial inclusion under the patronage of '**Reaching out to All!**'

In keeping with its tradition of providing liberal and easily accessible financial services to the underserved, the bank launched the following schemes for financial inclusion of these under privileged sections of the society.

- Financing to Weekly Market Hawkers.
- Financing of Vegetable Vendors.
- J&K bank Craft Development Loan.
- Educational loan for Primary and Secondary Education.

### Know Your Customer (KYC) and Anti Money Laundering (AML) Measures

38. The bank has created a separate KYC & AML cell within the Regulatory department for close monitoring of adherence to KYC norms at the operational levels. The operational levels are under strict instruction to observe the regulatory guidelines to safeguard the interests of the bank and work towards a healthy AML environment.

The bank is in the process of finalizing a standard automated system to facilitate the bank in complying with AML process requirements. The proposed system will identify and filter customers / transactions that pose potential risk as regards money laundering on the basis of business profiling of each individual customer.

### Information Technology Management

39. The highlights of information technology initiatives undertaken by the bank during 2006-07 are as under.
- With computerization of 25 branches (existing and new) during 2006-07, total number of computerized branches has increased to 415, covering over 98% business operations of the bank.
  - With rolling over of 33 additional branches to Core Banking Solutions (CBS-Finacle) during the year, the number of branches on CBS has gone up to 161, which encompass more than 80% of the total business of the bank.
  - 161 branches are rendering Internet and SMS banking facilities while 280 branches offer 'Anywhere Banking' facilities.
  - During the year, 27 off-site ATMs were realigned, 2 new ATMs installed and installation of additional 16 ATMs is underway taking the total number of ATMs to 191.
  - Successful implementation of Integrated Computerized Currency Operations and Management System (ICCOMS), Depository Software (DpSecure), development and implementation of RCC reporting software, centralized inward

## Management Discussion and Analysis ...

clearing, MasterCard and National Financial Switch (NFS) Transaction Reconciliation System, web based on-line Tax application system, Call tracking for ATM Helpdesk, etc. was achieved during the year.

In addition to the accomplishments in the information technology field during 2006-07, the bank is in the process of establishing the following technological advancements and back-up systems in the coming months.

- Cheque Truncation in Delhi / NCR.
- RTGS on all Finacle branches.
- Disaster Recovery (DR) setup for RTGS.
- Oracle Financial Service Application (OFSA) for funds transfer pricing and Performance Analyser.
- System for KYC / AML compliance.
- Integrated Treasury Management System.
- Video Surveillance systems for branches, ATMs.
- Asset Tracking Systems for Mobile Cash Vans.

### Risk Management

40. The bank continued to focus on risk management on an enterprise wide basis and developing Integrated Risk Management Systems for efficient management of various risks viz. Credit, Market and Operational. The bank has taken the following initiatives for strengthening risk management practices in line with business strategies as also to achieve compliance with industry best practices and regulatory requirements.

- i) **Credit Risk:** The bank has focused on improving the credit appraisal and approval processes. New standardized appraisal formats have been introduced in the Corporate and SME segments. Centralized processing of credit proposals has been introduced to separate the business development and credit appraisal system. To bring objectivity to the credit risk assessment, eligible borrowers in corporate and SME segments are proposed to be brought under the internal credit rating system, which is in the final phase of customization and will be operational during 2007-08. Credit Audit / Loan Review Mechanism has been introduced for standard accounts of Rs. 5 Crore and above and identified weak accounts of Rs. 1 Crore and above with elevated risk characteristics. It would help to improve the credit quality and manage credit risk proactively. The bank is also doing periodic parallel runs of Standardised Approach for credit risk measurement as per regulatory guidelines.
- ii) **Market Risk:** The bank is implementing the recommendations of the consultants engaged by the bank for developing a cohesive integrated risk management system particularly in relation to interest rate risk quantification techniques, liquidity management and reporting systems. With an endeavor to further improve our Asset Liability management and thereby the market risk management, the bank has switched over to Duration Gap Analysis instead of the Traditional Gap Analysis. With these systems in place, the bank has contained market risk particularly on investment portfolio by reducing the non-SLR bonds and debentures portfolio and the duration of overall investment portfolio.
- iii) **Operational Risk:** The bank has constituted an Operational Risk Management Committee (ORMC) at the apex level to monitor progress on operational risk management. A comprehensive policy for Disaster Management and Business Continuity Plan (BCP) has been formulated. The bank has already initiated identification of operational risk areas of business units, capturing various operational risk events and analyzing their causative factors.
- iv) **Migration to Basel II:** The bank is gearing up to migrate to 'Revised Capital Adequacy Norms' by March 2009 i.e. the time schedule set out in RBI guidelines on the subject. Defining and restructuring the management information system for this purpose has been initiated. For smooth transition, process for conducting parallel runs for calculation of capital requirements for credit risk and operational risk as per Standardized Approach and Basic Indicator Approach respectively has been established.

### Human Resources

41. The bank has adopted the philosophy and approach wherein employee oriented initiatives include recruitment, development and learning, work environment and communication, rewards and recognition, health and well-being, balancing work and personal life and financial security. To address the desired requirements of an ethical, robust and flexible HR package, the bank announced a new HR package under “Naye Subah”. The package includes;

- i. Skill Advancement programme for employees across all levels.
- ii. Development of specialized cadres for critical function.

- iii. Succession plan for top management
- iv. Introduction of Competency mapping
- v. Introduction of performance based variable pay
- vi. Performance Management System “DARPAN”
- vii. New generation organizational setup and designations.

The remodeled HR initiatives coupled with the highest levels of commitment of the workforce towards the organization has ensured that even in times of very high attrition rates prevailing in the banking industry, the bank has witnessed negligible attrition of its dedicated workforce.

Skill enhancement through training is an area of continuing focus for the bank to maintain high standards of customer service and specialization. During the year, 3418 employees were imparted training in different areas at various institutes- in-house and external.

As part of the strategy to provide a well-defined and well-paced career path to all the cadres, 538 officers covering scale II onwards were promoted during 2006-07.

### The Way Ahead – Scenario and Strategy

42. The **macroeconomic outlook** for 2007-08 is positive and the economy is expected to grow at 7.5 to 8%. However, the signs of overheating and the constant higher inflation are causes of concern. Inflation is expected to hover around 5.5-6% levels. Higher capital inflows on account of higher relative growth prospect are expected even though RBI has already initiated measures for moderation of capital inflows and is contemplating another reduction in ceiling interest rates payable on NRI deposits. Interest rates will be under pressure and are expected to rise further. This may lead to marginal slowdown of credit, which is expected to grow at 20-22% YoY. Cost of deposits is likely to go up on account of increasing share of term deposits in the deposit mix.

The gross state domestic product (GSDP) of **J&K state** is estimated at Rs. 28,000 Crore envisaging a real growth of 8%. Increased level of economic activity is envisaged due to improving socio-political situation in the state. Tourist inflow, which already outnumbered 1998 levels in 2006, is expected to record overwhelming growth in 2007-08. Credit absorption rate of the state at 0.3% of the total national credit needs to be shored up to national levels commensurate with the contribution of the state to national GDP, which is 0.7%.

43. Business strategy of the bank for 2007-08 is built on the premise of budget estimates of the state and national economy as well as the untapped potential. The strategy aims at **expansion, aggressive credit growth and improved liability management**. The bank aims to increase lending in J&K, which is high margin low volume. In rest of India, the bank will target niche lending to improve margins and build volumes. For this purpose the bank will target under serviced areas with high turnover, specialized sectoral lending and specialist commodity financing branch chain for leather, grains and spices. The crux will be to become a **universal bank in J&K** and a **specialist bank in rest of India**.

44. The Bank has one unique source of strength which, if cultivated carefully, can be virtually impregnable - its roots are in the state, and as such it shares with the people of J&K a kinship, and empathy for the cause of the state's progress, which no outside bank ever can.

The management therefore strongly advocates that the Bank focus its efforts primarily on the state of Jammu & Kashmir, and become a provider of universal solutions to all the people in the state. It needs to provide excellent service and customized lending within the state. With the emerging trend of consolidation in the industry, smaller banks face the challenge of delivering profitable growth and maintaining return ratios. However, the geographical near-monopoly and the unique ownership structure of J&K Bank serve as a firewall and insulate it from possible mergers and acquisitions (M&A) activity.

45. To achieve the broad based objectives, the following new initiatives have been undertaken by the bank:
- Innovative financial products like Apple Finance, Saffron Finance, Sheep Rearing Finance, Artisans Loan Schemes, School Bus Finance, etc.
  - Monetizing bank branch network by offering cash management corridors to schools / colleges, revenue / bill collection for various agencies / departments.
  - Third party product distribution. Mutual fund schemes of Reliance, UTI and Kotak, Life insurance products of MetLife

## Management Discussion and Analysis ...

- India, Non-life insurance products of Bajaj Allianz, etc.
- Venture Capital financing. For innovative viable ventures conceived by entrepreneurs and for projects with high yield prospects particularly for creation of infrastructure for development of Agriculture / Horticulture in the State.
  - Channel financing. For factoring receivables of suppliers, traders of arts and crafts, Commission and forwarding agents of fruits etc.
46. The bank intends to tap the potential in the underfinanced productive segments of the state economy. Horticulture has a potential to absorb Rs. 12-15 billion credit but is currently financed to Rs. 1.5 billion only. Likewise the artisan economy of the state has the potential for Rs. 4-6 billion against the current exposure of Rs. 0.6 billion. The formulated strategy is bound to effect a turnaround in these sectors from sub-optimal cycle of low productivity to optimal productivity and cycle of savings.
47. In addition to the fund based credit facilities, the bank is also envisaging substantial growth in non-interest fee-based income. The initiatives of reconstruction of physical assets, fresh investments in infrastructure projects, employment and income generation pursued by the J&K Government will have a cause and effect relationship for JK Bank. The bank has a captive client in J&K state government which will be investing Rs. 240 billion in power sector only. The bank will provide fee based services like investment advisory and loan syndication for the proposed projects.
48. For the second consecutive financial year, the Balance Sheet of the Bank is not carrying any qualification of Auditors which reflects management's commitment to ethical business principles and transparency.
49. To sum up, the bank having completed the phase of consolidation is now moving into margin-enhancing growth phase led by the high economic growth of J&K State, greater financial deepening of the J&K economy, specialised sectoral lending in rest of the country and more intensive financial intermediation.

## Key Financial Ratios

Particulars	As on 31.03.07	As on 31.03.06
1. Earning per Share (Rs.)	56.62	36.48
2. Book Value per Share (Rs)	414.36	371.20
3. Gross NPA (Rs. In Crore)	501.83	370.19
4. Gross NPA (%)	2.89%	2.5%
5. Net NPA (Rs. In Crore)	193.57	133.87
6. Net NPA (%)	1.13%	0.92%
7. NPA Coverage Ratio (%)	61.43%	63.64%
8. Credit / Deposit Ratio (%)	67.79%	61.67%
9. CASA Ratio (%)	37.02%	34.17%
10. Return on Assets (%)	0.96%	0.67%
11. Return on Net worth (%)	14.67%	10.21%
12. Cost to Income Ratio (%)	40.13%	44.57%
13. Business per Employee (Rs. Lakh)	585.00	516.00
14. Net Profit per Employee (Rs. Lakh)	4.01	2.59
15. Capital Adequacy Ratio (%)	13.24%	13.52%
i) Tier I CRAR (%)	12.60%	13.09%
ii) Tier II CRAR (%)	0.64%	0.43%
16. Economic Value Addition (%)	12.06%	8.07%

# Auditors' Report

To

The Shareholders of

**The Jammu and Kashmir Bank Limited**

1. We have audited the annexed Balance Sheet of The Jammu & Kashmir Bank Limited as at 31st of March 2007 and also the annexed Profit & Loss Account of the Bank for the year ended on that date in which are incorporated the returns of 34 Branches/Offices audited by us and 460 Branches / Offices 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 & Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Sub Section 211 of the Companies Act, 1956.

On the basis of audit as indicated 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 purpose 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 the returns received from the offices and branches of the Bank have been found adequate for the purpose of our audit.
- d. The Bank's Balance Sheet and Profit & 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, 2007, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st of March, 2007 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 gives a true and fair view of the state of affairs of the Bank as at 31st March, 2007,
  - ii. The Profit and Loss Account gives 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

Sd/-  
(CA. Lalit Magotra)  
Partner  
M.No. 88613

**For Gupta Sharma & Associates**  
Chartered Accountants

Sd/-  
(CA. Surinder Gandotra)  
Partner  
M.No. 87768

**For Baweja & Koul**  
Chartered Accountants

Sd/-  
(CA. Mohit Khanna)  
Partner  
M.No. 505029

Place : Srinagar  
Dated : 7th May, 2007

# Balance Sheet

as at 31 March, 2007

	Schedule	As at 31.03.2007 (Rs. '000' Omitted)	As at 31.03.2006 (Rs. '000' Omitted)
<b>CAPITAL AND LIABILITIES</b>			
Capital	1	48,49,21	48,49,21
Reserves and Surplus	2	19,60,24,17	17,50,97,94
Deposits	3	2,51,94,29,47	2,34,84,63,71
Borrowings	4	6,20,18,95	2,63,93,47
Other Liabilities and Provisions	5	8,23,31,00	9,00,93,89
<b>Total</b>		<b>2,86,46,52,80</b>	<b>2,64,48,98,22</b>
<b>ASSETS</b>			
Cash and Balance with Reserve Bank of India	6	18,54,76,84	9,37,88,07
Balance with Banks & Money at Call & Short Notice	7	17,58,99,22	13,49,52,67
Investments	8	73,92,19,30	89,93,84,06
Advances	9	1,70,79,94,21	1,44,83,10,51
Fixed Assets	10	1,83,44,51	1,94,71,68
Other Assets	11	3,77,18,72	4,89,91,23
<b>Total</b>		<b>2,86,46,52,80</b>	<b>2,64,48,98,22</b>
Contingent Liabilities	12	32,99,51,68	49,70,13,49
Bills for Collection		5,41,35,13	3,80,18,35
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/-  
(Mushtaq Ahmad)  
Executive Director

Sd/-  
(Mohd. Yaseen Mir)  
Director

Sd/-  
(B L Dogra)  
Director

Sd/-  
(Umar Khurshid Trambo)  
Director

Sd/-  
(Abdul Majid Mir)  
President - Finance & Risk Management

Sd/-  
(Parvez Ahmed)  
Company Secretary & Vice President

Place : Srinagar  
Dated : 7th May, 2007

In terms of our Report of even date annexed

**For Gupta Gupta & Associates**  
Chartered Accountants

**For Gupta Sharma & Associates**  
Chartered Accountants

**For Baweja & Koul**  
Chartered Accountants

Place : Srinagar  
Dated : 7th May, 2007

Sd/-  
(CA. Lalit Magotra)  
Partner  
M.No. 88613

Sd/-  
(CA. Surinder Gandotra)  
Partner  
M.No. 87768

Sd/-  
(CA. Mohit Khanna)  
Partner  
M.No. 505029

# Profit and Loss Account

for the year ended 31st March, 2007

	Schedule	As at 31.03.2007 (Rs. '000' Omitted)	As at 31.03.2006 (Rs. '000' Omitted)
<b>I. INCOME</b>			
Interest Earned	13	18,99,32,52	17,06,25,24
Other Income	14	1,60,21,17	1,10,85,30
<b>Total</b>		<b>20,59,53,69</b>	<b>18,17,10,54</b>
<b>II. EXPENDITURE</b>			
Interest Expended	15	11,31,48,19	10,42,52,71
Operating Expenses	16	3,72,44,03	3,45,25,44
Provisions and Contingencies		2,81,12,84	2,52,48,05
<b>Total</b>		<b>17,85,05,06</b>	<b>16,40,26,20</b>
<b>III. NET PROFIT</b>		<b>2,74,48,63</b>	<b>1,76,84,34</b>
<b>Total</b>		<b>20,59,53,69</b>	<b>18,17,10,54</b>
<b>IV. APPROPRIATIONS</b>			
Profit Brought Down		2,74,48,63	1,76,84,34
Deferred Tax Asset		—	1,44,74
<b>Total</b>		<b>2,74,48,63</b>	<b>1,78,29,08</b>
<b>APPROPRIATED / TRANSFERED TO</b>			
i) Statutory Reserve		68,62,16	44,61,84
ii) Capital Reserve		—	2,45,72
iii) Revenue and Other Reserve		1,40,64,07	4,46,99,38
– Transfer from Investments Fluctuation Reserve		—	(2,52,06,08)
– Transfer from / to P&L A/c		—	(1,07,93,92)
iv) Final Dividend Proposed		55,74,94	38,78,22
v) Tax on Dividend		9,47,46	5,43,92
<b>Total</b>		<b>2,74,48,63</b>	<b>1,78,29,08</b>
Principal Accounting Policies	17		
Notes on Accounts	18		
Earning per Share (Basic/Diluted)		56.62	36.48

The Schedules Referred to above from an integral part of the Profit & Loss Account

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/- (Mushtaq Ahmad) Executive Director	Sd/- (Mohd. Yaseen Mir) Director	Sd/- (B L Dogra) Director
Sd/- (Umar Khurshid Trambo)	Sd/- (Abdul Majid Mir) President - Finance & Risk Management		Sd/- (Parvez Ahmed) Company Secretary & Vice President

Place : Srinagar  
Dated : 7th May, 2007

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; Koul</b> Chartered Accountants
	Sd/- (CA. Lalit Magotra) Partner M.No. 88613	Sd/- (CA. Surinder Gandotra) Partner M.No. 87768	Sd/- (CA. Mohit Khanna) Partner M.No. 505029
Place : Srinagar Dated : 7th May, 2007			

# Schedules to the Balance Sheet

as at 31st March, 2007

	As at 31.03.2007 (Rs. '000' Omitted)	As at 31.03.2006 (Rs. '000' Omitted)
<b>SCHEDULE 1 – CAPITAL</b>		
<b>AUTHORISED CAPITAL</b>		
7,50,00,000		
Equity Shares of Rs.10/- each	75,00,00	75,00,00
<b>ISSUED</b>		
4,84,99,602 Equity Shares of Rs.10/- each	48,49,96	48,49,96
<b>SUBSCRIBED AND PAID-UP</b>		
4,84,77,702 (Previous year 4,84,77,702)		
Equity Shares of Rs. 10/- each	48,47,77	48,47,77
Add: Forfeited Shares (21,900)	1,44	1,44
<b>Total</b>	<b>48,49,21</b>	<b>48,49,21</b>
<b>SCHEDULE 2 – RESERVES &amp; SURPLUS</b>		
I. Statutory Reserves		
Opening Balance	4,68,40,36	4,23,78,52
Additions during the year	68,62,16	44,61,84
<b>Total</b>	<b>5,37,02,52</b>	<b>4,68,40,36</b>
II. Capital Reserves		
Opening Balance	35,03,04	32,57,32
Additions during the year	—	2,45,72
<b>Total</b>	<b>35,03,04</b>	<b>35,03,04</b>
III. Share Premium		
Opening Balance	86,77,91	86,77,91
Additions during the year	—	—
<b>Total</b>	<b>86,77,91</b>	<b>86,77,91</b>
IV. Revenue And Other Reserves		
Opening Balance	11,60,76,63	7,13,77,25
Additions during the year	1,40,64,07	4,46,99,38
<b>Total</b>	<b>13,01,40,70</b>	<b>11,60,76,63</b>
V. Investments Fluctuation Reserve		
Opening Balance	—	2,52,06,08
Additions/ (Deductions) during the year	—	(2,52,06,08)
<b>Total</b>	<b>—</b>	<b>—</b>
VI. Profit And Loss Account		
Opening Balance	—	1,07,93,92
Additions/ (Deductions) during the year	—	(1,07,93,92)
<b>Total</b>	<b>—</b>	<b>—</b>
<b>Total ( I, II, III, IV, V &amp; VI)</b>	<b>19,60,24,17</b>	<b>17,50,97,94</b>

## Schedules to the Balance Sheet as at 31st March, 2007 ...

	As at 31.03.2007 (Rs. '000' Omitted)	As at 31.03.2006 (Rs. '000' Omitted)
<b>SCHEDULE 3 – DEPOSITS</b>		
A. I. Demand Deposits		
i) From Banks	57,77,31	50,13,20
ii) From Others	34,21,40,38	29,61,26,37
Total	<b>34,79,17,69</b>	<b>30,11,39,57</b>
II. Saving Bank Deposits	58,48,83,37	50,13,50,72
III. Term Deposits		
i) From Banks	25,03,16,10	26,29,74,89
ii) From Others	1,33,63,12,31	1,28,29,98,53
Total	1,58,66,28,41	1,54,59,73,42
Total A (I+II+III)	<b>2,51,94,29,47</b>	<b>2,34,84,63,71</b>
B. I. Deposits of branches in India	2,51,94,29,47	2,34,84,63,71
II. Deposits of branches outside India	Nil	Nil
Total B (i+ii)	<b>2,51,94,29,47</b>	<b>2,34,84,63,71</b>

## SCHEDULE 4 – BORROWINGS

I. BORROWINGS IN INDIA		
i) Reserve Bank of India	—	—
ii) Other Banks	10,10	—
iii) Other Institutions & Agencies	4,49,63,41	23,01,37
Total	<b>4,49,73,51</b>	<b>23,01,37</b>
II. BORROWINGS OUTSIDE INDIA	1,70,45,44	2,40,92,10
Secured borrowings included in I & II above	Nil	Nil
Grand Total ( I & II )	<b>6,20,18,95</b>	<b>2,63,93,47</b>

## SCHEDULE 5

### OTHER LIABILITIES AND PROVISIONS

I. Bills Payable	2,00,45,12	1,55,96,37
II. Inter Office Adjustments (Net)	1,89,03,66	2,11,84,35
III. Interest Accrued on Non-cumulative deposits	58,85,22	1,27,89,74
IV. Unsecured Redeemable Debenture / Bonds (Subordinated Debts for Tier II Capital )	—	87,00,00
V. Provision Against Standard Assets	1,00,89,57	55,47,31
VI. Other (Including Provisions)	2,74,07,43	2,62,76,12
Total	<b>8,23,31,00</b>	<b>9,00,93,89</b>

## SCHEDULE 6

### CASH AND BALANCES WITH RESERVE BANK OF INDIA

I. Cash in Hand (Including Foreign Currency Notes)	1,23,83,67	1,27,43,04
II. Balance with Reserve Bank of India		
i) In Current Account	17,30,93,17	8,10,45,03
ii) In Other Accounts	—	—
Total	<b>18,54,76,84</b>	<b>9,37,88,07</b>

<b>SCHEDULE 7</b>	<b>As at 31.03.2007 (Rs. '000' Omitted)</b>	<b>As at 31.03.2006 (Rs. '000' Omitted)</b>
<b>BALANCE WITH BANKS AND MONEY AT CALL &amp; SHORT NOTICE</b>		
<b>1. IN INDIA</b>		
(I) Balance with Banks		
i) In Current Accounts	33,98,28	73,50,04
ii) In Other Deposit Accounts	6,27,68,58	10,17,05,09
Total (I)	<b>6,61,66,86</b>	<b>10,90,55,13</b>
(II) Money At Call and Short Notice		
i) With Banks	10,97,32,36	2,50,00,00
ii) With Other Institutions	—	—
Total (II)	10,97,32,36	2,50,00,00
Total (I & II)	<b>17,58,99,22</b>	<b>13,40,55,13</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>17,58,99,22</b>	<b>13,49,52,67</b>

Schedules to the Balance Sheet as at 31st March, 2007 ...

	As at 31.03.2007 (Rs. '000' Omitted)	As at 31.03.2006 (Rs. '000' Omitted)
<b>SCHEDULE 8 – INVESTMENTS</b>		
I. INVESTMENTS IN INDIA		
Gross Investments	74,15,27,88	90,37,77,79
Less: Provision for Depreciation on Investments	23,08,58	43,93,73
Net Investments	73,92,19,30	89,93,84,06
i) Government Securities	55,31,40,50	63,50,24,62
ii) Other Approved Securities	39,07,20	43,01,64
iii) Shares (Pref. + Equity)	78,17,39	54,85,86
iv) Debentures and Bonds	9,51,15,64	17,62,20,30
v) Sponsored Institutions and Joint Venture	1,42,32,27	68,57,27
vi) Others		
a) Certificate of Deposit	2,68,66,68	2,74,15,87
b) Mutual Funds	1,22,50,00	1,46,00,00
c) Indra/ Kisan Vikas Patra	—	—
d) Commercial Paper	—	54,47,20
e) Rural Infrastructure Development Fund (NABARD)	2,58,89,62	2,40,31,30
Total (I)	<b>73,92,19,30</b>	<b>89,93,84,06</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>73,92,19,30</b>	<b>89,93,84,06</b>
III. INVESTMENTS CATEGORY-WISE		
A) Held to Maturity	55,45,62,25	48,61,53,29
B) Held for Trading	1,10,25	—
C) Available for Sale	18,45,46,80	41,32,30,77
Total (A+B+C)	<b>73,92,19,30</b>	<b>89,93,84,06</b>

<b>SCHEDULE 9 – ADVANCES</b>		<b>As at 31.03.2007 (Rs. '000' Omitted)</b>	<b>As at 31.03.2006 (Rs. '000' Omitted)</b>
A. i)	Bills Purchased and Discounted	6,19,16,01	5,20,39,78
ii)	Cash Credits, Overdrafts and Loans		
	Repayable on Demand	59,90,38,14	50,24,23,58
iii)	Term Loans	1,04,70,40,06	89,38,47,15
	<b>Total</b>	<b>1,70,79,94,21</b>	<b>1,44,83,10,51</b>
B. i)	Secured by Tangible Assets	1,14,86,66,11	92,07,70,56
ii)	Covered by Bank / Govt. Guarantees	32,03,99,91	35,14,75,74
iii)	Unsecured	23,89,28,19	17,60,64,21
	<b>Total</b>	<b>1,70,79,94,21</b>	<b>1,44,83,10,51</b>
C. I.	Advances in India		
i)	Priority Sector	32,86,97,77	28,27,86,44
ii)	Public Sector	41,57,09,20	40,30,08,35
iii)	Banks	10,73,74,61	7,53,28,59
iv)	Others	85,62,12,63	68,71,87,13
	<b>Total</b>	<b>1,70,79,94,21</b>	<b>1,44,83,10,51</b>
II.	Advances Outside India		
i)	Due from Banks	Nil	Nil
ii)	Due from Others	Nil	Nil
	<b>Grand Total ( I &amp; II )</b>	<b>1,70,79,94,21</b>	<b>1,44,83,10,51</b>

#### **SCHEDULE 10 – FIXED ASSETS**

I.	PREMISES		
i)	Gross Block at the beginning of the year	1,66,43,94	1,62,71,33
	Additions during the year	5,45,38	3,80,90
		1,71,89,32	1,66,52,23
	Deductions during the year	—	8,29
		1,71,89,32	1,66,43,94
	Depreciation to date	65,96,21	57,09,21
	<b>Total (i)</b>	<b>1,05,93,11</b>	<b>1,09,34,74</b>
ii)	Advance against flats	—	3,82,69
iii)	Constructions work in progress	6,75,64	2,46,58
	<b>Total (I) [ i+ii+iii ]</b>	<b>1,12,68,75</b>	<b>1,15,64,00</b>
II.	OTHER FIXED ASSETS		
	(Including Furniture & Fixtures)		
	Gross Block at the beginning of the year	2,45,78,58	2,18,73,57
	Additions during the year	16,03,13	29,34,20
		2,61,81,71	2,48,07,77
	Deductions during the year	8,44	2,29,19
		2,61,73,27	2,45,78,58
	Depreciation to date	1,90,97,51	1,66,70,90
	<b>Total (II)</b>	<b>70,75,76</b>	<b>79,07,68</b>
	<b>Grand Total (I &amp; II)</b>	<b>1,83,44,51</b>	<b>1,94,71,68</b>

## Schedules to the Balance Sheet as at 31st March, 2007 ...

	As at 31.03.2007 (Rs. '000' Omitted)	As at 31.03.2006 (Rs. '000' Omitted)
<b>SCHEDULE 11 – OTHER ASSETS</b>		
I. Interest Accrued but not Due	1,45,59,26	1,26,30,53
II. Interest Accrued and Due	56,90	2,00,38
III. Inter Office Adjustment (Net)	—	—
IV. * Tax paid in Advance / Tax Deducted at Source (Net of Provisions)	58,46,14	78,46,47
V. Stationery and Paper in Hand	2,43,17	2,75,93
VI. Deferred Tax Asset	4,25,42	2,98,64
VII. Others	1,65,87,83	2,77,39,28
<b>Total</b>	<b>3,77,18,72</b>	<b>4,89,91,23</b>

\* Includes both IncomeTax as well as Fringe Benefit Tax

## SCHEDULE 12 – CONTINGENT LIABILITIES

I. Claims against the Bank not Acknowledged as Debts	8,79,87	8,32,84
II. Liability on account of outstanding Forward Exchange Contracts	9,79,34,46	27,46,39,95
III. Guarantees given on behalf of constituents:-		
i) In India	8,40,17,07	6,62,55,33
ii) Outside India	—	9,38,28
IV. Acceptances, Endorsements & Other Obligations	14,55,12,82	15,36,05,28
V. Other items for which the Bank is Contingently liable	16,07,46	7,41,81
<b>Total</b>	<b>32,99,51,68</b>	<b>49,70,13,49</b>

## Schedules to the Profit & Loss Account

	Year Ended 31.03.2007 (Rs. '000' Omitted)	Year Ended 31.03.2006 (Rs. '000' Omitted)
<b>SCHEDULE 13 – INTEREST EARNED</b>		
I. Interest / Discount on Advances / Bills	13,53,66,78	11,02,37,25
II. Income on Investments	5,08,02,77	5,61,06,83
III. Interest on Balances with R.B.I and Other Inter-Bank Funds	37,62,97	42,81,16
Total	<b>18,99,32,52</b>	<b>17,06,25,24</b>

### SCHEDULE 14 – OTHER INCOME

I. Commission, Exchange & Brokerage	89,80,53	71,92,59
II. Profit on Redemption & Sale of Investments (Less Loss on Investments)	11,20,27	(16,63,50)
III. Profit on Sale of Land, Buildings & Other Assets	—	—
IV. Profit on Exchange Transactions (Less Loss on E/Transactions)	8,83,55	7,38,92
V. Income earned by way of Dividends etc. from Subsidiaries, Companies and/or Joint Ventures abroad/in India	11,74,34	6,94,08
VI. Miscellaneous Income	38,62,48	41,23,21
Total	<b>1,60,21,17</b>	<b>1,10,85,30</b>

### SCHEDULE 15 – INTEREST EXPENDED

I. Interest on Deposits	10,95,45,04	10,26,48,04
II. Interest on RBI/Inter-Bank Borrowings	35,35,94	5,82,42
III. Others	67,21	10,22,25
Total	<b>11,31,48,19</b>	<b>10,42,52,71</b>

### SCHEDULE 16 – OPERATING EXPENSES

I. Payments for Employees	2,20,07,25	1,92,39,97
II. Rent, Taxes and Lighting	26,68,69	22,75,96
III. Printing and Stationery	3,83,82	3,89,20
IV. Advertisement and Publicity	4,93,83	3,05,97
V. Depreciation on Bank's Property	33,13,61	38,92,49
VI. Directors Fees, Allowances and Expenses	22,38	16,92
VII. Auditors Fees & Expenses (Including Branch Auditors Fees & Expenses)	3,64,38	2,98,65
VIII. Law Charges	67,18	58,52
IX. Postage, Telegrams, Telephones etc.	4,62,10	4,13,99
X. Repairs and Maintenance	4,92,52	4,73,82
XI. Insurance	16,03,97	15,33,12
XII. Other Expenditure	53,64,30	56,26,83
Total	<b>3,72,44,03</b>	<b>3,45,25,44</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 whereof 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. Advances are shown net of provisions required for NPA's. Provisions for advances classified as Standard Assets is clubbed with other liabilities-others.

## 5. Fixed Assets:

- i. Premises and other fixed assets are accounted for at historical cost.
- ii. Premises include freehold as well as leasehold properties.
- iii. Premises include capital work in progress.

- iv. 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%

- v. However, in terms of RBI guidelines depreciation on computers (including ATMs) along with major softwares is charged at the rate of 33.33% on straight-line method for the full year even if the computers (including ATMs) have been purchased during the second half. The same treatment of depreciation has been given to the Mobile Phones. In respect of Computer software, not forming integral part of computers has been charged fully in the year of purchase.
- vi. 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.
- vii. Leasehold properties are amortized over the period of lease.

#### 6. Employees Benefits:

- 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.
- Contribution to gratuity fund is made on the basis of actuarial valuation.
- 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 amortized 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.

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

#### 9. Net Profit:

The net profit is disclosed in the profit and loss account after providing for:

- Income-Tax, Fringe Benefit Tax and Deferred Tax,
- Standard Assets, Non Performing Advances/ Investments as per RBI guidelines,
- Depreciation on Investments,
- Transfer to contingency reserves,
- 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. 2.37 Crores (Previous year Rs. 3.03 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, as per RBI guidelines and mobile phones has been computed at the rate of 33.33% on straight-line method.
  - iv) Depreciation on Banks property includes amortization in respect of leased properties amounting to Rs. 0.19 Crores.
4. Capital

Particulars	31.03.2007	31.03.2006
CRAR (%)	13.24%	13.52%
CRAR – Tier I capital (%)	12.60%	13.09%
CRAR – Tier II capital (%)	0.64%	0.43%
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. The bank has made no profit on sale of HTM category securities during the year, as such no appropriation was made (Previous year Rs. 2.46 Crores) to "Capital Reserve Account", being an amount equivalent to the profit on sale of HTM category securities.
6. 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.
7. The total Investment of the Bank in the Joint Venture (Metlife India Insurance Co. Pvt. Ltd) stood at Rs. 132.50 Crores as on 31.03.2007 (previous year Rs. 58.75 crores).

## 8. Details of investments

(Rs. in Crores)

Items	31.03.2007	31.03.2006
1. Value of investments		
(i) Gross value of investments		
(a) In India	7415.28	9037.78
(b) Outside India	Nil	Nil
(ii) Provision for depreciation		
(a) In India	23.09	43.94
(b) Outside India	Nil	Nil
(iii) Net value of investments		
(a) In India	7392.19	8993.84
(b) Outside India	Nil	Nil
2. Movement of provision held towards depreciation on investments		
(i) Opening balance	43.94	57.33
(ii) Add: Provisions made during the year	18.12	60.48
(iii) Less: Write-off/ write back of excess provisions during the year	38.97	73.87
(iv) Closing balance	23.09	43.94

## 9. The participation in 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 31.03.2007
Securities sold under repos	0.00	275.00	8.00	0.00
Securities purchased under reverse repos	0.00	1850.00	307.00	0.00

## 10. Non-SLR Investment portfolio

## 10.1 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	205.97	0.00	0.00	4.29	18.29
2 Fls	570.02	0.00	24.99	26.99	50.28
3 Banks	464.20	5.00	0.00	19.67	9.77
4 Private Corporates	265.71	92.15	54.08	102.37	65.41
5 Subsidiaries / Joint Venture	142.32	0.00	0.00	0.00	0.00
6 Others	196.59	3.13	0.00	0.00	23.72
Total	1844.81	100.28	79.07	153.32	167.47
7 Provision held towards depreciation	23.09	0.00	0.00	0.00	0.00
Total	1821.72	100.28	79.07	153.32	167.47

The Bank's investment in unlisted non-SLR securities, reckoned for prudential limit, as on 31-03-2007 is 9.19% (Previous year 10.5%) as against the stipulated limit of 10% of its total investment in Non-SLR securities.

## Schedule 18 Notes on Accounts ...

### 10.2 Non-SLR Non-performing investments

(Rs. in Crores)

Particulars	Amount
Opening balance	113.97
Additions during the year	0.00
Reductions during the year	34.90
Closing balance	79.07
Total provisions held (including floating provision of Rs. 2.76 crores)	81.83

10.3 The value of investments under three categories viz., Held for Trading, Available for Sale and Held to Maturity are as under:

Particulars	As on 31.03.2007				As on 31.03.2006			
	HFT	AFS	HTM	Total	HFT	AFS	HTM	Total
Government securities	0.00	1078.85	4452.55	5531.40	0.00	806.94	3718.30	4525.24
Other approved securities	0.00	0.00	39.07	39.07	0.00	0.00	43.02	43.02
Shares (Equity & Pref.)	1.10	40.10	36.97	78.17	0.00	15.36	39.50	54.86
Debentures & bonds	0.00	335.35	615.82	951.17	0.00	1010.38	992.14	2002.52
Subsidiaries & joint venture	0.00	0.00	142.32	142.32	0.00	0.00	68.57	68.57
Others	0.00	391.17	258.89	650.06	0.00	474.63	0.00	474.63
Subtotal	1.10	1845.47	5545.62	7392.19	0.00	2307.31	4861.53	7168.84
Reverse repo	0.00	0.00	0.00	0.00	0.00	1825.00	0.00	1825.00
Grand total	1.10	1845.47	5545.62	7392.19	0.00	4132.31	4861.53	8993.84

### 11 Derivatives

11.1 No Forward rate agreements/ interest rate swaps are undertaken by the bank during the year.

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

11.3 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 held for trading or speculation 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
(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

## 12. Asset Quality

### 12.1 Non Performing Asset

(Rs. in Crores)

Particulars	31.03.2007	31.03.2006
Net NPAs to Net Advances (%)	1.13%	0.92%
Movement in Gross NPAs:		
(a) Opening Balance	370.19	317.25
(b) Additions during the year	273.57	157.95
(c) Reductions during the year	141.93	105.01
(d) Closing balance	501.83	370.19
Movement in Net NPAs:		
(a) Opening Balance	133.87	162.93
(b) Additions during the year	202.00	75.95
(c) Reductions during the year	141.93	105.01
(d) Closing balance (after reducing interest suspense amounting to Rs. 1.09 crores, previous year Rs. 0.72 Crores)	193.57	133.87
Movement of Provision for NPAs (excluding provision on standard assets):		
(a) Opening Balance	*235.60	153.60
(b) Add / Transfer Provision made during the year	71.57	*82.00
(c) Less write-off	0.00	0.00
(d) Closing Balance	*307.17	*235.60

\* Including floating provision of Rs. 52.90 crores.

### 12.2 Details of Loan assets subjected to Restructuring (Rs. in Crores)

Particulars	31.03.2007		31.03.2006	
	No. of Accounts	Amount	No. of Accounts	Amount
a) Total amount of loan restructured				
(i) Standard assets restructured	Nil	Nil	10	22.92
(ii) Sub-Standard assets restructured	3	0.63	2	6.72
(iii) Doubtful assets restructured	Nil	Nil	Nil	Nil
Total:	3	0.63	12	29.64
b) Corporate Debt restructured				
(i) Standard Assets subjected to CDR	Nil	Nil	Nil	Nil
(ii) Sub-standard Assets subjected to CDR	Nil	Nil	Nil	Nil
(iii) Doubtful Assets subjected to CDR	Nil	Nil	Nil	Nil
Total:	Nil	Nil	Nil	Nil

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.

## 13. Details of Financial Assets Sold to Securitisation/ Reconstruction Company for Asset Reconstruction.

The Bank has not securitised any Assets during the year.

## Schedule 18 Notes on Accounts ...

### 14. Details of floating provisions

#### 14.1 Advances (Rs. in Crores)

Particulars	31.03.2007	31.03.2006
Opening balance	52.90	14.67
Additions made during the year	0.00	52.90
Utilization made during the year	0.00	14.67
Closing balance	52.90	52.90

#### 14.2 Investments

Opening balance	2.76	4.28
Additions made during the year	0.00	0.00
Utilization made during the year	0.00	1.52
Closing balance	2.76	2.76

#### 15. Provision on standard Assets (Rs. in Crores)

Provision towards Standard Assets	100.90	55.47
-----------------------------------	--------	-------

Provision on standard assets has been arrived at Rs. 100.90 Crores, in accordance with RBI guidelines, against which the bank is already holding provision of Rs. 55.47 Crores as on 31.03.2006. Hence, provision of Rs. 43.43 Crores has been made during the year and Rs. 2.00 crores has been utilized from contingency reserve.

### 16. Business Ratios

Particulars	31.03.2007	31.03.2006
(i) Interest income as a percentage to working fund*	7.87%	7.60%
(ii) Non-Interest income as a percentage to working funds*	0.66%	0.59%
(iii) Operating profit as a percentage to working funds*	2.30%	2.01%
(iv) Return on Assets**	0.96%	0.67%
(v) Business (deposits plus advances) per employee***	5.85 crores	5.16 crores
(vi) Profit per employee	0.04 crores	0.03 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 31.03.2007 (Rs. in Crores)

Particulars	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	1506.05	1566.07	2605.55	2108.67	967.85	12369.99	3780.07	290.04	25194.29
Borrowings	34.00	0.00	0.00	172.00	404.00	10.00	0.19	0.00	620.19
Investments	27.87	178.92	957.90	108.57	467.89	714.87	382.02	4554.15	7392.19
Advances	697.58	340.24	1257.16	1191.32	2158.02	8277.95	1604.94	1552.73	17079.94

(ii) Details of Foreign currency Assets / Liabilities (Maturity Pattern) as on 31.03.2007

LIABILITIES

(Rs. in Crores)

Particulars	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	93.33	11.88	208.76	254.75	63.54	0.00	632.26
EURO	7.90	0.00	26.24	10.07	4.77	0.00	48.98
GBP	6.06	0.00	1.56	0.00	0.00	0.00	7.62
J.YEN	0.00	0.41	0.00	0.00	0.00	0.00	0.41
Total	107.29	12.29	236.56	264.82	68.31	0.00	689.27

ASSETS

(Rs. in Crores)

Particulars	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	70.92	25.97	196.65	262.71	61.70	0.00	617.95
EURO	6.78	5.19	20.25	11.13	5.84	0.00	49.19
GBP	2.26	1.33	2.11	1.64	0.23	0.00	7.57
J.YEN	0.15	0.00	0.00	0.00	0.00	0.00	0.15
Total	80.11	32.49	219.01	275.48	67.77	0.00	674.86

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	31.03.2007	31.03.2006
1. Direct exposure		
(i) Residential mortgages		
(a) Individual housing loans upto Rs. 15 lakhs	494.93	447.36
(b) Others	248.03	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	1609.79	1039.60
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)	531.80	645.90

## Schedule 18 Notes on Accounts ...

### 18.2 Exposure to Capital Market

(Rs. in Crores)

Particulars	31.03.2007	31.03.2006
1. Investments made in equity shares	195.11	89.19
2. Investments in bonds/ convertible debentures	0.00	0.00
3. Investments in units of equity-oriented mutual funds	49.50	66.00
4. Advances against shares to individuals for investments in equity shares (including IPOs/ ESOPs), bonds and debentures, units of equity oriented mutual funds		
5. Secured and unsecured advances to stock brokers and guarantees issued on behalf of stockbrokers and market makers	136.16	32.61
Total (1+2+3+4+5)	380.91	187.91
6. Of 5 above, the total finance extended to stock brokers for margin trading	Nil	Nil

### 19. Advances to Commodities Sector

(Rs. in Crores)

Particulars	31.03.2007	31.03.2006
1. Cash crop	89.83	8.49
2. Edible oils	275.33	40.65
3. Agriculture produce	121.47	50.51
4. Other sensitive commodities	14.28	47.61
Total	500.91	147.26

### 20. Risk category-wise country exposure

(Rs. in Crores)

Category	Risk Category	Exposure (net) as at March 2007	Provision held as at March 2007	Exposure (net) as at March 2006	Provision held as at March 2006
A1	Insignificant	13.22	Nil	18.96	Nil
A2	Low	0.97	Nil	1.38	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
	Total	14.19	Nil	20.33	Nil

### 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

(Details of provisions):

(Rs. in Crores)

Particulars	31.03.2007	31.03.2006
Tax expense		
i) Current tax	140.53	77.50
ii) Deferred tax liability/ (asset)	(1.27)	(1.21)
iii) Fringe benefit tax	1.45	8.00
Provision against NPAs	71.57	82.00
Provision for standard assets	43.43	25.15
Provision for depreciation on investments	18.12	60.48
Provision for funded interest term loan	4.52	0.00
Provision for Debts Restructured (investments only)	0.00	1.52
Provision for Non performing Investment	2.28	(1.52)*
Provision for frauds and embezzlements	0.50	0.20
Other provisions & contingencies	0.00	0.36
Total	281.13	252.48

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

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

a. 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 third year the sum of Rs. 7.96 Crores has been charged to Profit & loss account. Balance amount of Rs. 15.93 Crores is included in Schedule 11 (Other Assets -Others).

b. Liability for Gratuity, Pension and Leave Encashment has been provided for based on actuarial valuation.

23.4 Accounting Standard 17 – Segment Reporting

i. 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, Assets and Liabilities

(Rs. in Crores)

Description	March 2007	March 2006
A SEGMENT REVENUE (Income)		
i. Treasury Operations	561.75	607.09
ii. Other Banking Operations	1413.82	1124.61
iii. Residual Operations	2.39	2.48
iv. Unallocable Income	81.57	82.93
Total Net Income from Operations	2059.54	1817.11

## Schedule 18 Notes on Accounts ...

Description	March 2007	March 2006
<b>B SEGMENT RESULTS (Profit before tax)</b>		
i. Treasury Operations	61.17	32.55
ii. Other Banking Operations	454.18	305.45
iii. Residual Operations	0.69	0.61
Total	516.04	338.61
Less: un-allocable expenses (Net of un-allocable income)	100.85	77.48
Total Profit before tax	<b>415.20</b>	<b>261.13</b>
<b>C SEGMENT ASSETS</b>		
i. Treasury Operations	10767.06	12070.10
ii. Other Banking Operations	16063.34	13722.65
iii. Residual Operations	2.28	2.02
iv. Un-allocated	1813.85	654.21
Total	<b>28646.53</b>	<b>26448.98</b>
<b>D SEGMENT LIABILITIES</b>		
i. Treasury Operations	8336.41	8976.24
ii. Other Banking Operations	14313.33	10902.27
iii. Residual Operations	0.05	0.08
iv. Un-allocated	5996.74	6570.39
Total	<b>28646.53</b>	<b>26448.98</b>
<b>E Net Segment Assets / Liabilities</b>		
i. Treasury Operations	2430.66	3093.86
ii. Other Banking Operations	1750.02	2820.38
iii. Residual Operations	2.22	1.94
iv. Un-allocated	(4182.90)	(5916.18)
Total	<b>0.00</b>	<b>0.00</b>

ii. 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 31.03.2007, Rs. in Crores)

Items/Related	Kamraz Rural Bank	Jammu Rural Bank	MetLife India
Party	(Associates)	(Associates)	(Joint Venture)
Deposits	133.06	322.25	18.50
Advances	—	—	—
Investments	4.34	5.48	132.50
Interest Paid	8.43	19.42	0.11
Interest/Comm.			
Received	0.002	—	6.99
Salary	—	—	—

Items/ Related Party	K.M.P. Dr. H.A. Drabu (Chairman)	K.M.P. Mr. A.R. Fazili (ED)	K.M.P. Mr. Mushtaq Ahmad (ED) 29.12.06	Son of K.M.P. (ED) Mr. Zubair Fazili	Son of K.M.P. (ED) Mr. Sheikh Imtiyaz Ahmad
Deposits	—	—	—	—	—
Advances	0.46	0.03	0.04	—	0.02
Investments	—	—	—	—	—
Interest Paid	—	—	—	—	—
Interest/Commission					
Received	0.03	0.001	0.0009	0.0001	0.002
Salary	0.26	0.10	0.03	—	—

- Bank is holding 25% of Share Capital in MetLife India and 35% each in Jammu Rural Bank & Kamraz Rural Bank.
- K.M.P. (Key Management Personnel)

#### 23.6 Accounting Standard 20 – Earning per share (Rs. in Crores)

Particulars	31.03.2007	31.03.2006
Net Profit available to Equity Share Holders	274.49	176.84
Weighted Average No. of Equity Shares	48477702	48477702
Basic/diluted Earning per share (in Rs.)	56.62	36.48

#### 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	Nil	Nil
Depreciation on Assets	28634	Nil
Leave encashment – Section 43B	97752	Nil
Net DTA	126386	
Tax Impact	42542	

#### 23.8 Accounting Standard 26 – Intangible Assets

The bank has incurred an amount of Rs. 1.79 crores on Brand names bifurcated into two heads. Expenditure on Branch Signage amounting to Rs. 0.59 crores has been debited under the head furniture and fixture and brand strategy project expenses amounting to Rs. 1.20 crores has been charged to profit and loss account treating it as revenue expenditure for the reason that otherwise the bank cannot declare dividend to shareholders without writing it off completely in view of the provisions of the Banking Regulation Act, 1949. Accordingly the bank has not evaluated useful life of this brand strategy project over which the expenses could be amortized.

#### 23.9 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” No. – 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%

## Schedule 18 Notes on Accounts ...

### 23.10 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.

### 23.11 Accounting Standard 29 – Provisions, 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. 6.47 Crores (Previous year Rs. 6.17 Crores).

24.2 Commission, exchange and brokerage under the head other income of Schedule 14 to profit and loss account includes a sum of Rs. 30.00 crores on handling of Govt. business and for transactions of pension disbursements for the year.

24.3. The Bank has incurred an additional expenditure of Rs.13.11 crores on account of pay revision of its employees during the year.

25. The principal accounting policies (Schedule 17) and Notes on Accounts (Schedule 18) form an integral part of these accounts.

26. Previous year figures have been regrouped / rearranged wherever necessary and possible to conform to current year figures.

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/-  
(Mushtaq Ahmad)  
Executive Director

Sd/-  
(Mohd. Yaseen Mir)  
Director

Sd/-  
(B L Dogra)  
Director

Sd/-  
(Umar Khurshid Trambo)  
Director

Sd/-  
(Abdul Majid Mir)  
President - Finance & Risk Management

Sd/-  
(Parvez Ahmed)  
Company Secretary & Vice President

Place : Srinagar  
Dated : 7th May, 2007

In terms of our Report of even date annexed

**For Gupta Gupta & Associates**  
Chartered Accountants

**For Gupta Sharma & Associates**  
Chartered Accountants

**For Baweja & Koul**  
Chartered Accountants

Place : Srinagar  
Dated : 7th May, 2007

Sd/-  
(CA. Lalit Magotra)  
Partner  
M.No. 88613

Sd/-  
(CA. Surinder Gandotra)  
Partner  
M.No. 87768

Sd/-  
(CA. Mohit Khanna)  
Partner  
M.No. 505029

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

### I. REGISTRATION DETAILS

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

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

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

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

Total Liabilities	<input type="text"/> 2 <input type="text"/> 8 <input type="text"/> 6 <input type="text"/> 4 <input type="text"/> 6 <input type="text"/> 5 <input type="text"/> 2 <input type="text"/> 8 <input type="text"/> 0	Total Assets	<input type="text"/> 2 <input type="text"/> 8 <input type="text"/> 6 <input type="text"/> 4 <input type="text"/> 6 <input type="text"/> 5 <input type="text"/> 2 <input type="text"/> 8 <input type="text"/> 0
-------------------	--	--------------	--

#### SOURCES OF FUNDS

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

#### APPLICATION OF FUNDS

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

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

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

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

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

\* Subject to the approval of shareholders

## Cash flow statement for the year ended 31st March, 2007

	Year ended 31.03.2007 (Rs. 000, omitted)	Year ended 31.03.2006 (Rs. 000, omitted)
Cash flow from operating activities	14,80,11,11	(8,05,54,27)
Cash flow from investing activities	(21,86,43)	(31,24,32)
Cash flow from financing activities	(1,31,89,35)	(54,07,29)
Net change in cash and cash equivalents	13,26,35,33	(8,90,85,88)
Cash and cash equivalents at the Beginning of the year	22,87,40,74	31,78,26,62
Cash and cash equivalents at The end of the year	36,13,76,06	22,87,40,74
<b>A. CASH FLOW FROM OPERATING ACTIVITIES:</b>		
a) Interest received during the year from Advances/Investments	18,81,47,26	17,64,50,09
b) Other Income	1,60,21,17	1,10,85,30
c) Interest paid on deposits etc.	(11,99,85,50)	(9,73,68,84)
d) Operating expenses including Provisioning & Contingencies	(5,12,85,95)	(5,13,44,63)
e) Adjustment for depreciation	33,13,61	38,92,49
TOTAL : (a-e)	<b>3,62,10,59</b>	<b>4,27,14,41</b>
f) Deposits	17,09,65,76	18,39,66,44
g) Borrowings	3,56,25,47	(55,54,72)
h) Investments	16,01,64,76	29,56,60
i) Advances	(25,96,83,69)	(29,65,96,38)
j) Other liabilities & provisions	57,41,37	51,63,43
k) Other Assets	1,11,84,21	(37,64,25)
TOTAL : ( a-k )	<b>16,02,08,49</b>	<b>(7,11,14,47)</b>
l) Less: Tax Paid	1,21,97,37	94,39,80
TOTAL : (A)	<b>14,80,11,11</b>	<b>(8,05,54,27)</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES:</b>		
a) Fixed Assets	(21,86,43)	(31,24,32)
b) Investment in Sponsored Institutions.	—	—
TOTAL :(B)	<b>(21,86,43)</b>	<b>(31,24,32)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES:</b>		
a) Share Capital	—	—
b) Share Premium	—	—
c) Tier II Bonds	(87,00,00)	—
d) Dividend Paid	(44,22,14)	(43,85,04)
e) Interest Paid on Subordinate Debt	(67,21)	(10,22,25)
TOTAL :(C)	<b>(1,31,89,35)</b>	<b>(54,07,29)</b>
<b>D. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
a) Cash in hand & Balance with R.B.I	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
TOTAL :(D)	<b>22,87,40,74</b>	<b>31,78,26,62</b>

	Year ended 31.03.2007 (Rs. 000, omitted)	Year ended 31.03.2006 (Rs. 000, omitted)
E. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
a) Cash in hand & Balance with R.B.I	18,54,76,84	9,37,88,07
b) Balance with Banks & Money at Call & Short Notice	17,58,99,22	13,49,52,67
TOTAL : (E)	36,13,76,06	22,87,40,74

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

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/-  
(Mushtaq Ahmad)  
Executive Director

Sd/-  
(Mohd. Yaseen Mir)  
Director

Sd/-  
(B L Dogra)  
Director

Sd/-  
(Umar Khurshid Tramboo)  
Director

Sd/-  
(Abdul Majid Mir)  
President - Finance & Risk Management

Sd/-  
(Parvez Ahmed)  
Company Secretary & Vice President

Place : Srinagar  
Dated : 7th May, 2007

The above cash flow statement has been taken on record by the Board of Directors in its meeting held on 7th May, 2007 at Srinagar.

Sd/-  
(Company Secretary & Vice President)

## 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, 2007 and March 31, 2006. 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.

For Gupta Gupta & Associates  
Chartered Accountants

For Gupta Sharma & Associates  
Chartered Accountants

For Baweja & Koul  
Chartered Accountants

Place : Srinagar  
Dated : 7th May, 2007

Sd/-  
(CA. Lalit Magotra)  
Partner  
M.No. 88613

Sd/-  
(CA. Surinder Gandotra)  
Partner  
M.No. 87768

Sd/-  
(CA. Mohit Khanna)  
Partner  
M.No. 505029

## Comments of C & AG

COMMENTS UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF THE JAMMU AND KASHMIR BANK LIMITED, FOR THE PERIOD ENDED 31ST OF MARCH, 2007 WERE NOT RECEIVED UPTO THE DATE AND COULD NOT BE CIRCULATED. THESE WILL BE PLACED BEFORE THE SHAREHOLDERS IN THE MEETING.

# 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.

## 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, which has the primary duty of ensuring that principles of Corporate Governance both as imbibed in law and regulations, and those expected by stakeholders are religiously and voluntarily complied with and the stake holders’ 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 nine comprising of Chairman, two Executive Directors and six Non-Executive Directors. 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, inter-alia, include setting Corporate Missions, laying down Corporate Philosophy, formulation of Strategic and other Business Plans, laying down of Control Measures and compliance with Laws and Regulations.

#### 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, eleven Board meetings were held, in due compliance with statutory provisions, on the following dates: 05.04.06, 19.05.06, 28.07.06, 26.08.06, 01.09.06, 16.09.06, 13.10.06, 20.10.06, 30.11.06, 22.01.07 & 06.03.07.

#### 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 2006–07 Attendance at Board Meetings					
Name of Director	Category of Director	Meetings during the tenure	Meetings attended	Percentage	Whether attended AGM held on 26.8.2006
Haseeb A. Drabu	Chairman & CEO	11	11	100	Yes
M.S. Verma	Independent Non-Executive Director	11	09	82	Yes
G. P. Gupta	Independent Non-Executive Director	11	08	73	Yes
B.B.Vyas, IAS	Non-Executive Director	11	04	36	Yes
A.R. Fazili	Executive Director	11	09	82	Yes
Mushtaq Ahmad	Executive Director (From 29.12.2006)	02	02	100	NA
Mohd. Yaseen Mir	Independent Non-Executive Director	11	05	45	Yes
B. L. Dogra	Independent Non-Executive Director	11	10	91	Yes
U K Tramboo	Independent Non-Executive Director	11	09	82	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 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 worked as 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. He has also worked as a Consultant for the Asian Development Bank.

## Corporate Governance ...

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 inducted by the Planning Commission to its working group on resources for the eleventh five-year plan.

He was 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 and member of the Advisory Committee of National Disaster Management Authority, GOI.

### **M.S. VERMA**

Mayashanker Verma, a career banker has over 45 years of experience in the Indian financial sector. 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. He was the Managing Director of State Bank of India from December 1996 to April 1997 and then rose to be the Chairman. He ended his career with the bank as its Chairman in November 1998. After retirement from State Bank of India, Mr. Verma was appointed as honorary advisor to the Reserve Bank of India and also as the non-executive Chairman of IDBI Bank. In March 2000, Mr. Verma was appointed by the Government of India as the Chairman of Telecom Regulatory Authority of India, a position he held till March, 2003.

Presently, Mr. Verma serves on the Board of a number of public and private sector companies and is associated with several educational and research institutions in advisory capacity. He is Vice-President of the governing body of the National Council of Applied Economic Research and a Member of the Board of Governors of the Institute of Economic Growth, University of Delhi.

### **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) belongs to the J&K Cadre of the Indian Administrative Services and is serving as Government Nominee Director on the Bank's Board. Mr. Vyas has rich and varied experience in Banking, Finance, Agriculture, Disaster Management and District/Divisional Administration. Mr. Vyas has held several distinguished positions both in the State and Central Governments. In the State Government, Mr. Vyas has worked as District Magistrate/Deputy commissioner of Poonch, Udhampur and Srinagar districts. In his assignment as Divisional Commissioner of Kashmir he managed the relief and rehabilitation response to the earthquake of 2005. He has served in the Central Government as Deputy Secretary in charge of Agriculture Credit in the Banking Division of the Union Ministry of Finance. He played a lead role in the recapitalisation of Regional Rural Banks (RRBs) and restructuring of Co-operative Credit institutional frame work 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 paving the way for turnaround of the Bank. He also served as Director with State Bank of Bikaner and Jaipur (SBBJ), and Deposit Insurance and Credit Guarantee Corporation (DICGC). Mr. Vyas has also headed the front office of Union Finance Minister during 2000-2002. He also served 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 represents the State Government as a Director on the Board of Directors of 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 Ltd., 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 a law graduate from Aligarh Muslim University. He joined National and Grindley's Bank in the year 1971. He was selected as Probationary Officer in J&K Bank in December 1972. Ever since he has worked as Branch Manager in rural, urban, semi-urban and metropolitan areas. There is hardly any department of the Bank where Mr. Fazili has not contributed and worked. He has served in Bank's hierarchy in various positions. Mr. Fazili was elevated as Executive Director on the Board of J&K Bank in the year 2005. He has been now on the Board of J&K Bank for last two years. His areas of specialization include Human Resources, General Administration, Regulatory, Advances and Asset Planning, Estates, Rural Banking, Money Cards and Lead Bank etc. During the course

of his service career, Mr. Fazili has also worked as Chairman of Kamraz Rural Bank - a Bank sponsored by J&K Bank. Besides he has also been a member of the Personal Committee of Indian Bank's Association during the year 2002-2003. Mr. Fazili has been a pioneer in completing the J&K Bank Officers Service Manual 2000; a long cherished demand of employees of the Bank and is the architect in starting Bank's Corporate Agency with Bajaj Allianz General Insurance Company and MetLife India Insurance Co. (Pvt.) Ltd. Mr. Fazili is also having an added privilege of being a Director on the Board of MetLife India Insurance company for last several years as the Bank is having a joint venture with this insurance company.

#### **MUSHTAQ AHMAD**

Mushtaq Ahmad, other Executive Director of our Bank has more than 34 years of experience in banking. Mr. Mushtaq Ahmad joined the Bank in the year 1972 as Probationary Officer and during his banking career he has held various important and senior positions in the bank as part of the Corporate Management Team. He has special knowledge and practical experience in the fields of Finance, Corporate and Retail Banking, Treasury & Investment Management, International Banking, Liability & Risk Management and General Administration /HRD.

#### **M. YASEEN MIR**

M. Yaseen Mir, a 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 Controller-ship 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, 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, Bellwether Micro finance Fund Ltd., Asian Heart Institute and Research Centre and Shriram Transport Finance Co. Ltd.

#### 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., Idea Cellular 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, J&K SidCo; J&K Sicop; J&K State Cable Car 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

#### M.S. VERMA

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

Asian Heart Institute and Research Centre, Chairman, Audit Committee

#### G.P. GUPTA

Aditya Birla Nuvo Ltd, Member, Audit Committee

NTPC Limited, Chairman, Audit Committee

Swaraj Engines Ltd, Chairman, Audit Committee

PTC India Limited, Member, Audit Committee

Birla Sun Life Insurance Company Ltd, Member, Audit Committee

Power Finance Corporation Ltd. Chairman, Audit Committee

Shree Digvijay Cement Corp. Ltd., Member, Audit Committee

Idea Cellular Ltd., Chairman, Audit Committee

Hindustan Aeronautics Ltd, Chairman, Audit 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 here under:

#### Audit Committee

##### ROLE AND FUNCTION

Bank has constituted an Audit Committee of the Board comprising of 4 Non-Executive Independent Directors and 1 Executive Director. 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 there on. 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

Mushtaq Ahmad, (Executive Director), Member

B.L. Dogra, Member

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

17.05.06, 18.05.06, 27.07.06, 13.10.06, 14.10.06, 13.12.06, 21.01.07 & 24.01.07

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>
M.S. Verma	8	7	88
G. P. Gupta	8	8	100
B. B. Vyas, IAS	8	0	0
B. L. Dogra	8	8	100
Umar Khurshid Tramboo (14.10.06 to 21-1-07)	3	2	67
Mushtaq Ahmad (w.e.f 24th Jan 07)	1	1	100

#### **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

A.R. Fazili, Member

B.L. Dogra, Member

Umar Khurshid Tramboo, Member

The Management Committee met eight times during the year on the following dates:

22.06.06, 28.07.06, 01.09.06, 20.10.06, 30.11.06, 14.12.06, 23.01.07, 07.03.07

## Corporate Governance ...

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
Haseeb A Drabu	8	8	100
G. P. Gupta	8	6	75
B. B. Vyas, IAS	8	2	25
A. R. Fazili	8	6	75
B. L. Dogra	8	8	100
Umar K. Tramboo	8	7	88

### 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.

The Integrated Risk Management Committee met twice during the year on 01.12.06 and 07.03.2007

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
Haseeb A Drabu	2	2	100
M. S. Verma	2	2	100
G. P. Gupta	2	2	100
A. R. Fazili (upto 31-12-06)	1	1	100
Mushtaq Ahmad (w.e.f 30-12-2006)	1	1	100

### 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 31.03.2007. All requests for dematerialization of shares are likewise processed and confirmation communicated to Investors and Depository Participants within five working days.

3. During the year 621 service requests / complaints were received and all these service requests / complaints stand redressed.

PARTICULARS	RECEIVED	DISPOSED	PENDING
1 Change/correction of the address	187	187	0
2 Correction of the name on the Share Certificates	3	3	0
3 Change/correction of Bank Mandate	21	21	0
4 Non-receipt of Share Certificates	3	3	0
5 Loss of share certificates and request for duplicate share certificates	159	159	0
6 Request for transmission	59	59	0
7 Non-receipt of share certificates after transfer (nrscat)	2	2	0
8 Correspondence/query related to nsdl operation	13	13	0
9 Non-receipt of dividend warrants (nrdw)	84	84	0
10 Correction of bank mandate/name on Dividend Warrants	25	25	0
11 Receipt of dividend warrants for revalidation	32	32	0
12 Receipt of indemnity bond for issue of duplicate dividend	4	4	0
13 Registration of nomination	19	19	0
14 Complaints form sebi/Stock Exchange	0	0	0
15 Legal cases/cases before Consumer Forums	0	0	0
16 Non receipt of fullypaid stickers	7	7	0
17 Request for deletion of name due to death	3	3	0

Shareholders/ Investors Grievance Committee consists of:

B.L. Dogra, Chairman

Mushtaq Ahmed, 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.

##### 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 Directors is subject to approval of Reserve Bank of India in terms of Section 35B of the Banking Regulation Act, 1949.

#### Chairman / Executive Directors

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 & Mushtaq Ahmad are the Executive Directors of the Bank effective from 9th June 2005 and 29th Dec. 2006, respectively. In terms of Section 35B of the Banking Regulation Act, 1949, the monthly remuneration being paid to them, 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. 7,560.00
<b>CCA</b>	Rs. 250.00
<b>Total</b>	Rs. 83,410.00

#### 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 10,000/- for every Board meeting or Committee meeting.

#### Details of number of Shares /Convertible Debentures held by Non-Executive Directors as on 31-03-2007

<b>Name of the Director</b>	<b>No. of shares held</b>	<b>Number of convertible debentures held</b>
M.S. Verma	500	Nil
G.P. Gupta	500	Nil
M. Yaseen Mir	500	Nil
B.L. Dogra	300	Nil
Umar Khurshid Tramboo	525	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 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 Ahmad, 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

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 2006-2007.

### Economic Value Addition

Economic value added is a fairly reliable measure of an enterprise's efforts in measuring Value Addition. Besides the quantitative earnings, EVA indicates the quality of earnings as it represents the excess an organization is able to generate over its Cost of Capital. A positive EVA indicates that the business has generated wealth in excess of what is expected by the shareholders. EVA calculations of the Bank are given below for the last three years, which reflects consistent improvement of EVA: -

#### EVA Calculations for last three years

	Financial year	Post Tax Profits (Rs. in Cr.) (Rs. in Cr.)	Capital Employed	Cost of Capital Employed	Post Tax return on Capital EVA	
1	2006-07	274.48	2009	1.61%	13.66%	12.06%
2	2005-06	176.84	1799	1.75%	9.83%	8.07%
3	2004-05	115.06	1665	2.75%	6.91%	4.16%

### SHAREHOLDERS 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 2006-07 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

#### Registrar and Transfer Agent (RTA)

KARVY COMPUTERSHARE PRIVATE LIMITED  
Plot No. 17-24  
Vittalrao Nagar  
Madhapur, Hyderabad - 500 081  
Andhra Pradesh, India  
Phone No. 040-23420838  
Fax No. 040-23420814

#### Email ID for redressal of Investor Grievances

Pursuant to Clause 47(c) of the Listing Agreement, Bank has created a separate Email ID for redressal of Investor Complaints and Grievances. The Email ID for redressal of Investor Grievances is [sharedeptt\\_gc@jkbmail.com](mailto:shareddeptt_gc@jkbmail.com)

#### Compliance Officer

Name	: Mr. Parvez Ahmad, Company Secretary & Vice-President
Role	: To ensure compliance to all statutory regulations as far as they relate to Company Secretary and redressal of grievance of Shareholders / Investors
Address	: The Jammu & Kashmir Bank Board Secretariat, Corporate Headquarters, M.A. Road Srinagar – 190 001 Phone 0194-2481928 / 0194-2481930-35 Extn. 1416

#### Financial Calendar

Approval of quarterly results for the period ending:

- June 30, 2006 28th July, 2006
- September 30, 2006 13th October, 2006
- December 31, 2006 22nd January, 2007
- March 31, 2007 (Audited) 7th May, 2007

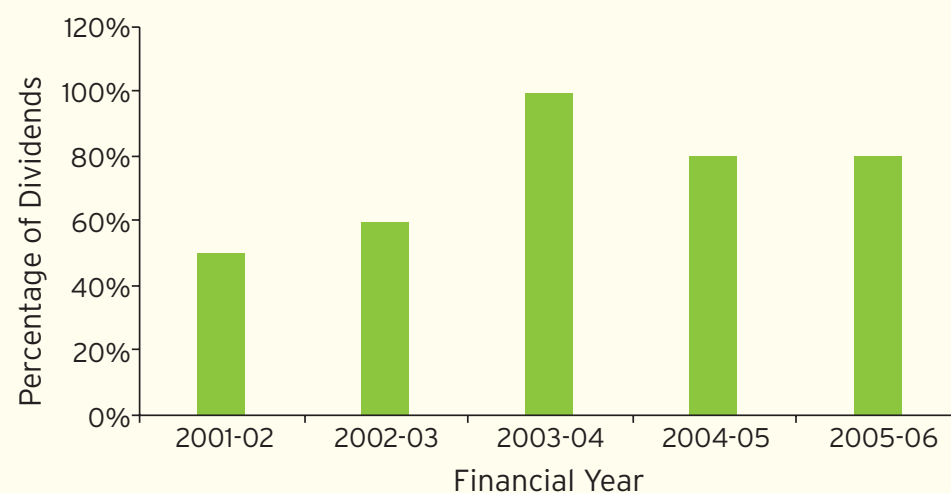
Information relating to last four general body meetings is furnished below:

Name of Meeting	Day, Date and Time of Meeting	Venue	Special Business Transacted
66th Annual General Meeting	Saturday, 12th June, 2004, at 11:00 A.M.	Sher-I-Kashmir International Conference Centre (SKICC) Srinagar	<ul style="list-style-type: none"> <li>• Alteration of Memorandum of Association</li> <li>• Exemption from Branch Audit</li> </ul>
EGM	Saturday, 24th July 2004, at 10:00 A.M.	Corporate Headquarters, Srinagar	<ul style="list-style-type: none"> <li>• Increase in Limits for FII Investment</li> </ul>
67th Annual General Meeting	Wednesday 8th June, 2005, at 11.00 A.M.	Sher-I-Kashmir International Conference Centre (SKICC) Srinagar	<ul style="list-style-type: none"> <li>• Alteration of Articles of Association</li> <li>• Delisting of Shares</li> <li>• Re-issue of forfeited shares</li> <li>• Cancellation of Shares</li> </ul>
68th Annual General Meeting	Saturday, 26th Aug, 2006, at 10.30 AM	Sher-i-Kashmir International Conference Centre (SKICC), Srinagar, J&K	<ul style="list-style-type: none"> <li>• Alteration of Articles of Association</li> </ul>

#### Dividend history of last five years

	Financial Year	Rate of Dividend	Date of Declaration	Date of RBI Approval	Date of Payment
1.	2001-2002	50%	03-06-2002	30-05-2002	09-06-2002
2.	2002-2003	60%	02-06-2003	07-07-2003	21-07-2003
3.	2003-2004	Interim 50%	23-02-2004	25-03-2004	15-04-2004
		Final 50%	12-06-2004	N A	12-06-2004
4.	2004-2005	80%	08-06-2005	N.A	08.06.2005
5.	2005-2006	80%	26-08-2006	N.A	06.09.2006

#### Recent dividend history



## Corporate Governance ...

### 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, 2007, the position of dematerialized shares as well as physical shares are as under:

(As on 31.03.2007)

Particulars	No. of Shares	% age
Physical Shares	26,84,019	5.53
Dematerialised Shares	4,56,84,001	94.47
Total	4,84,77,702	100.00

### Distribution of Shareholding as on 31.03.2007

Category	No. of Holders	% age Holders.	Amount (Holding)	% Holding
1 – 5000	19265	88.62	25327420.00	5.22
5001 – 10000	1987	9.14	12725400.00	2.62
10001 – 20000	217	1.00	3181840.00	0.66
20001 – 30000	84	0.39	2079630.00	0.43
30001 – 40000	43	0.20	1497520.00	0.31
40001 – 50000	27	0.12	1242910.00	0.26
50001 – 100000	39	0.18	3055160.00	0.63
100001 and above	75	0.35	435667140.00	89.87
Total	21737	100.00	484777020.00	100.00

### List of Shareholders holding more than 1% as on 31st March, 2007

Name of Investor	No. of Shares	% Holding
Chief Secretary Jammu and Kashmir Govt	24322598	50.17
Smallcap World Fund Inc	2617000	5.40
Clsa Merchant Bankers Ltd A/C Clsa Mauritius	2083364	4.30
Fid Funds (Mauritius) Limited	2048755	4.23
Vontobel Fund Far East Equity	1780023	3.67
Aberdeen Asset Managers Ltd A/C Aberdeen Int.na	1718000	3.54
Secretary Finance Deptt Jammu and Kashmir Govt	1452668	3.00
Acacia Partners L P	706955	1.46
Kuroto Fund L P	601021	1.24
Vontabel Fund Emerging Markets Equity	551609	1.14
Emerging Markets Growth Fund Inc	537400	1.11
Equinox Partners L P	515841	1.06

### 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 31.03.2007)

S. No.	Financial Year	Amount of Unclaimed Dividend
1.	i. 2003-04 (Interim)	18,54,852.00
	ii. 2003-04 (Final)	20,91,148.00
2 .	2004-05	24,18,947.00
3.	2005-06	23,29,211.00
	Total	86,94,158.00

#### Stock Market Data

##### JK BANK ON NSE NIFTY APRIL 2006 – MARCH 2007

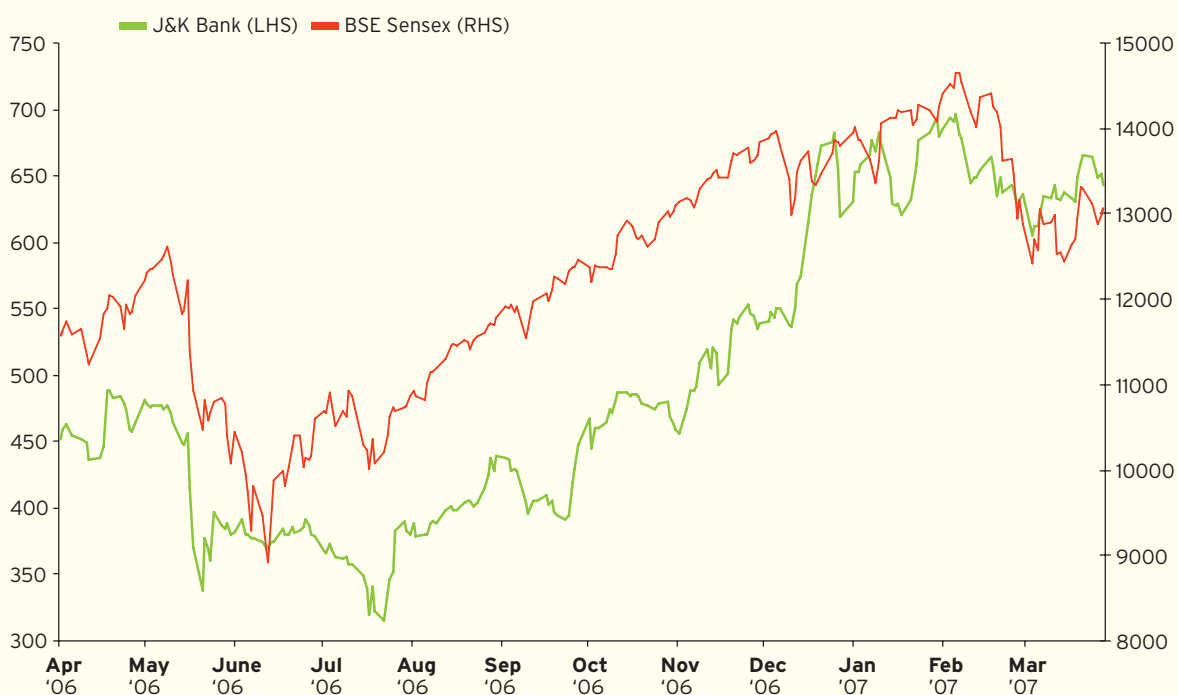
MONTH	HIGHEST		LOWEST		CLOSE		VOLUME
	Rate (Rs)	Date	Rate (Rs)	Date	Rate (Rs)	Date	
2006 April	503.80	20.04.2006	421.20	28.04.2006	464.55	29.04.2006	1913293
2006 May	495.00	12.05.2006	300.00	22.05.2006	386.50	31.05.2006	894405
2006 June	412.00	01.06.2006	352.05	08.06.2006	381.80	30.06.2006	565278
2006 July	403.00	31.07.2006	305.00	24.07.2006	389.75	31.07.2006	1096755
2006 August	444.00	31.08.2006	375.20	04.08.2006	429.40	31.08.2006	552515
2006 September	457.00	29.09.2006	387.00	26.09.2006	449.10	29.09.2006	1476168
2006 October	500.00	27.10.2006	427.90	19.10.2006	465.00	31.10.2006	3411801
2006 November	558.00	30.11.2006	450.05	03.11.2006	530.05	30.11.2006	2257162
2006 December	689.90	28.12.2006	522.00	12.12.2006	619.75	29.12.2006	1691839
2007 January	697.95	31.01.2007	615.00	23.01.2007	686.45	31.01.2007	965648
2007 February	720.00	06.02.2007	596.00	26.02.2007	631.30	28.02.2007	382527
2007 March	690.00	19.03.2007	570.00	07.03.2007	643.15	30.03.2007	321943



JK BANK ON BSE SENSEX APRIL 2006 – MARCH 2007

MONTH	HIGHEST		LOWEST		CLOSE		VOLUME
	Rate (Rs)	Date	Rate (Rs)	Date	Rate (Rs)	Date	
2006 April	505.00	21.04.2006	431.50	13.04.2006	464.95	29.04.2006	826911
2006 May	487.80	04.05.2006	310.00	22.05.2006	388.25	31.05.2006	277750
2006 June	399.00	25.06.2006	360.00	14.06.2006	379.30	30.06.2006	173997
2006 July	402.80	31.07.2006	306.05	24.07.2006	389.60	31.07.2006	711472
2006 August	442.00	31.08.2006	375.05	04.08.2006	427.55	31.08.2006	315682
2006 September	456.00	29.09.2006	390.50	26.09.2006	448.15	29.09.2006	742141
2006 October	498.00	27.10.2006	443.00	04.10.2006	469.00	31.10.2006	2104450
2006 November	557.80	27.11.2006	450.00	06.11.2006	534.70	30.11.2006	808951
2006 December	695.00	27.12.2006	521.00	13.12.2006	619.55	29.12.2006	727671
2007 January	700.25	31.01.2007	605.00	17.01.2007	694.30	31.01.2007	334061
2007 February	702.90	06.02.2007	605.00	28.02.2007	625.90	28.02.2007	113071
2007 March	682.00	26.03.2007	585.00	20.03.2007	643.75	30.03.2007	76161

J&K Bank on the BSE and BSE Sensex



## IMPORTANT EVENTS AFTER THE CLOSURE OF FINANCIAL YEAR ENDED 31.03.2007

This report covers the period of financial year of the Bank beginning on 1st of April 2006 to 31st of March 2007. There were no material events from 01.04.2007 to 7th May 2007, 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 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 feed back in the enclosed proforma.

### Calendar for shareholders' information

	Date
• Board meeting for consideration of Accounts and recommendation of Dividend	7th May, 2007
• Despatch of Annual Report / Notice of AGM	16th May, 2007
• Book closure Period	2nd June, 2007 to 9th June, 2007
• Last date for lodgment of proxy forms	7th June, 2007
• Date of AGM	9th June, 2007
• Dividend payment date on or after	9th June, 2007
• Validity period of dividend instrument	Three Months

# Disclosure on Company Secretary's Responsibility

The Company Secretary confirms that during the year from April 1, 2006 to March 31, 2007, the Bank has:

1. Maintained all the Books of Account and Statutory Registers required under the Companies Act, 1956, and the Rules made there under coming under the purview 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 purview 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 dispatched 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 eleven (11) 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 will close its Register of members from 2nd June, 2007 to 9th June, 2007 (both days inclusive) in connection with 46th 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 2005-06 was held on 26th August 2006 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 there under 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 : 7th May, 2007

**Parvez Ahmad**  
Company Secretary & Vice President

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, 2007 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 & Koul**  
Chartered Accountants

Sd/-  
(CA. Lalit Magotra)  
Partner  
M.No. 88613

Sd/-  
(CA. Surinder Gandotra)  
Partner  
M.No. 87768

Sd/-  
(CA. Mohit Khanna)  
Partner  
M.No. 505029

Place : Srinagar  
Dated : 7th May, 2007