





THE JAMMU & KASHMIR BANK LIMITED
Corporate Headquarters, M.A. Road, Srinagar - 190001

Redg. Office : Corporate Headquarters, M.A. Road, Srinagar - 190001 (J&K)
 Tele No. (0194) 481930-35, Fax : (0194) 481928 E-mail: parvezahmad@jkbmail.com

64TH ANNUAL REPORT 2001-2002

NOTICE

Notice is hereby given that the **64th Annual General Meeting** of the shareholders of the Jammu and Kashmir Bank Limited will be held as under:

Day : Monday
 Date : 3rd June 2002
 Time : 11.00 Hours
 Place : Sher-i-Kashmir International Conference Centre (SKICC), Srinagar, J & K

to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Audited Balance Sheet as at 31st March, 2002 and the Profit and Loss Account for the Financial Year ended on that date together with the Reports of the Board of Directors and the Auditors and comments of the Comptroller and Auditor General of India thereon.
2. To declare Dividend on equity shares for the year ended 31st March 2002 subject to the approval of Reserve Bank of India.
3. To appoint a Director in place of Mr. M. I. Shahdad, who retires by rotation and, being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. H. S. Anand, who retires by rotation and, being eligible, offers himself for reappointment.
5. To fix the remuneration of Auditors in terms of provisions of Section 224 (B) (aa) of the Companies Act, 1956.

SPECIAL BUSINESS:

6. AMENDMENT OF ARTICLES OF ASSOCIATION

To consider and if thought fit, to pass with or without modification(s), the following Resolution as a Special Resolution: -

"RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956 and provisions of other statutes as applicable and subject to such approvals, consents, permissions and sanctions as may be necessary from the appropriate authorities, the Articles of Association of the Bank be and are hereby amended as under: -

- (a) In Article 52 of Articles of Association the following words appearing in the first line be omitted :
 "and Section 22A of Securities Contracts (Regulation) Act, 1956"

- (b) After Article 54 the following new Article to be numbered 54A shall be added with marginal note "Nomination of shares":

- 54A (1) Every holder of the shares in or every holder of debentures of a Company may, at any time, nominate in the prescribed manner, a person to whom his shares in or debentures of the Company shall vest in the event of his death.
- (2) Joint holders may together nominate, in the prescribed manner, a person to whom all the rights in the shares or the debentures of the company shall vest in event of the death of all the joint holders.
- (3) Notwithstanding anything contained in any other law for the time being in force or in any

disposition, whether testamentary or otherwise, in respect of such shares in or debentures of the company, where nomination made in the prescribed manner purports to confer on any person the right to vest the shares in or debentures of the Company, the nominee, shall, on the death of the Shareholder or holder of debenture of the Company or, as the case may be, on the death of the joint holders become entitled to all the rights in the shares or debentures of the Company or, as the case may be, or all the joint holders, in relation to such shares in or debentures of the company to the exclusion of all other persons, unless nomination is varied or cancelled in the prescribed manner.

- (4) Where the nominee is a minor, the holder of shares or of debentures, may make nomination to appoint in the prescribed manner, any person to become entitled to shares in or debentures of the company in event of his death, during the minority.

- (c) In Article 55 of Articles of Association the following introductory words be inserted :

"Subject to provisions of Section 109A of Companies Act, 1956 and Article 54A of Articles of Association,"

- (d) In Article 73 of Articles of Association the following new clause be added :

"(m)- he becomes disqualified in terms of provisions of Section 274(1)(g) of Companies Act, 1956."

- (e) In Article 74 of Articles of Association the words, "Managing agents, Secretaries & Treasurers" appearing in 4th line be omitted and the words "Rs. 500 or" appearing in 5th line be substituted by the words "such sum as may be prescribed by Central Govt. from time to time."

- (f) After Article 104 of Articles of Association the following new Article to be numbered 104A be added with marginal note "Transaction of business through postal ballot":

"Subject to the provisions of Section 192A of Companies Act, 1956 and any other Rules and Regulations which may be framed by the Central Government from time to time the Company may transact such business as may be notified by the Central Government from time to time or which the Company may consider necessary through postal ballot."

- (g) Article 122(j) of the Articles of Association be substituted as under :

"where the Company has declared a Dividend but for one reason or the other is not paid or the dividend warrant thereof has not been posted within a period of **30 days** from the date of declaration to any shareholder entitled to the payment of the dividend, the company shall within **7 days** from the date of expiry of the said period of 30 days, open a special account in that behalf in any scheduled bank called "Unpaid Dividend Account of Jammu & Kashmir Bank Limited" and transfer to the said account, the total amount of dividend which remains unpaid/unclaimed or in relation to which no dividend warrant has been posted. Any money



transferred to the Unpaid Dividend Account of the Company which remains unpaid/ unclaimed for a period of **seven years** from the date of such transfer, shall be transferred by the Company to the **"Investor Education And Protection Fund"** established by Central Government under Section 205C of Companies Act, 1956. No claim shall lie against the Company in respect of Individual amounts transferred by the Company to the **"Investor Education & Protection Fund"** which were unclaimed/unpaid for a period of seven years from the date that they first became due for payment and no payment shall be made in respect of any such claim. No Unclaimed or Unpaid Dividend shall be forfeited by the Board".

- (h) Article 129 of Articles of Association be amended and recasted as under :

"The Board shall have power to provide a common seal for the purpose of the bank and from time to time to destroy the same and substitute a new seal in lieu thereof and shall provide for safe custody of the seal for time being and it shall not be affixed to any instrument except by the authority of a Resolution of the Board or of a Committee of the Board authorised by it in that behalf, and except in presence of atleast two Directors and of the Secretary or such other person as the Board may appoint for the purpose."

- (i) Article 130 of Articles of Association be amended and recasted as under :

"Every deed or other instrument to which the seal is required to be affixed shall be sealed in presence of and shall be signed by two Directors and countersigned by the Secretary or such Officer of the bank as shall from time to time be authorised by Board for the purpose. The seal shall be in personal custody of the Secretary."

7. INCREASE IN THE BORROWING LIMITS

To consider, and if thought fit, to pass with or without modification(s) the following Resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to Section 293(1)(d) and other applicable provisions of the Companies Act, 1956 and subject to such approvals as may be necessary from the appropriate authorities, consent of the Members be and is hereby accorded to the Board of Directors of the bank for borrowing from time to time any sum or sum of money's on such terms and conditions and with or without security as the Board of Directors may think fit, which together with the monies already borrowed by the Bank (apart from deposits accepted by the Bank or money borrowed by the Bank from any other Banking Company or from Reserve Bank of India in the ordinary course of business) may exceed the aggregate for the time being of the paid up capital of the Bank and its Free Reserves, that is to say, Reserves not set for specific purpose, provided that the total amount of money/monies so borrowed by the Board shall not at any time exceed the limit of Rs. 2,000 Crores."

"RESOLVED FURTHER that Board of Directors be and are hereby authorised to do and perform all such acts, deeds and things as may be necessary, desirable or expedient to give effect to this Resolution."

8. EXEMPTION FROM BRANCH AUDIT

To consider, and if thought fit, to pass with or without modification(s), the following Resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to Section 228 of the Companies Act, 1956, the Board of Directors be and are hereby authorised to apply to the Central Government under the **Companies (Branch Audit) Exemption Rules, 1961** for exemption from the audit of accounts for the year ending 31st March 2003 for those branches/offices as the Board may consider necessary."

Regd. Office:

Corporate Headquarters,
M. A. Road, Srinagar - 190 001
Dated: 8th May, 2002

By order of the Board of Directors

(Parvez Ahmed)
Secretary

NOTES

- a) **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE VALID AND EFFECTIVE MUST BE RECEIVED BY THE BANK AT ITS REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE TIME FIXED FOR THE MEETING.**
- b) Shareholders who have not encashed their past Dividend Warrants are requested to do so without any further delay. Unpaid/Unclaimed Dividends which are more than seven years old shall be transferred by Bank to the **"Investor Education and Protection Fund"** established under Sub-Section (1) of Section 205C of the Companies Act, 1956 and thereafter no claim can be preferred by the shareholders against the Company or the Fund.
- c) The Register of Members and Share Transfer Books of the Company will remain closed from 27.05.2002 to 03.06.2002 (both days inclusive).
- d) The payment of Dividend for the financial year ended 31st March, 2002, if approved by RBI and declared at the Annual General Meeting, will be paid, in case of physical shareholding to those Members whose names appear on the Register of Members of the Company on 3rd June, 2002 and in case of dematerialized share-holding, to those beneficiaries appearing in the records of National Securities Depository Limited and Central Depository Services (India) Limited as at the closing of the working hours on 25th May, 2002 subject to the provisions of Section 206A of the Companies Act, 1956.
- e) Members holding shares in physical form are requested to intimate the change, if any, in their Registered Address to the Share Transfer Agents. If the shares are held in Demat form, intimation regarding the change of address, if any, has to be notified to the concerned Depository Participant where the Shareholder is maintaining the Demat Account.
- f) Members desiring any information on the Accounts are requested to write to the Secretary of the Company at least one week before the Meeting so as to enable the Management to keep the information ready. Replies will be provided only at the Meeting.
- g) The relative Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 is annexed hereto.



ANNEXURE TO NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

ITEM NO. 5

Though not strictly necessary, Explanatory Statement is being given for Item No. 5 of the Notice with the view to set-out the material facts concerning such business.

Prior to Companies Amendment Act, 2000, remuneration payable to Auditors in case of Government Companies was decided by the Central Government on the advice of the Comptroller and Auditor General of India. However, consequent to the introduction of Section 224(8)(aa) of the Act, the remuneration of Auditors appointed under Section 619 of the Companies Act, 1956 by C&AG has to be fixed by the Company in General Meeting or in such manner as the Company in the General Meeting may determine. Members may accordingly fix the remuneration of Auditors and also ratify the payment of remuneration paid to Auditors for the Limited Review of Half Yearly Un-audited Financial Results for the period ended 30th September, 2001 and in respect of the previous financial year ended 31st March, 2001.

No Director of the Bank is anyway concerned or interested in the Resolution.

ITEM NO. 6

6(a) Consequent to the introduction of Depositories Act, 1996, Section 22A of Securities Contract Regulation Act, 1956 was omitted. Hence your Directors recommend the alteration of said Article to bring it in line with the aforesaid Amendment.

6(b) & (c) Section 109A of the Companies Act, 1956 was introduced by the Companies (Amendment) Act, 1999, which entitles the shareholders and debentureholders to make nomination of any person in whom the right in the shares or debentures shall vest in event of the death of the holder or joint holder. The amendment gave overriding effect to the nomination over any other disposition, whether testamentary or otherwise.

In order to bring the existing Articles to fall in line with the aforesaid Amendment, Directors of your Bank recommend the proposed modification for approval of the Shareholders.

6(d) The Companies (Amendment) Act, 2000 has added clause (g) to Sub Section (1) of Section 274 of the Act, whereby a person becomes disqualified from being a Director if he is a Director of a Public Company which-

(A) has not filed the Annual Accounts and Annual Returns for continuous three financial years commencing on and after the first day of April 1999, or

(B) has failed to repay its deposit or interest thereon on due date or redeem its debentures on due date or pay dividend and such failure continues for one year or more.

In order to align the said Article with the aforesaid Amendment, Directors recommend the alteration of the said Article.

6(e) The words "managing agent, secretaries and treasurers" were omitted by Companies (Amendment) Act, 2000 w.e.f. 13.12.2000 and hence, the Article needs to be amended. Further, Companies (Central Government) General Rules and Forms, 1956 has enhanced the limit for holding the Office or Place of Profit, from Rs.500/- to Rs.10,000/-. In view of the frequent changes in the limits, thereby resulting in consequent alterations of the said Article, the necessary modifications are recommended for the approval of Shareholders.

6(f) The Companies (Amendment) Act, 2000 has inserted a new Provision i.e. Section 192A with a view to strengthen Shareholders democracy and enabling even those who are unable to attend General Meeting of the Company to exercise their right to vote on matters of vital importance. Accordingly a Listed Company shall be required to pass Resolution in respect of certain businesses as the Central Government may specify only by postal ballot instead of transacting that business in a General Meeting of a Company. Therefore your Directors recommend the

insertion of new Article relating to postal ballot in the Articles of Association of the Company.

6(g) Section 205A of the Companies Act, 1956 requires Companies to transfer Dividend which has not been paid or claimed within 30 days from the date of declaration, to a special account "Unpaid Dividend Account" within 7 days from the expiry of the said period of 30 days. Sub-Section (5) of Section 205A was substituted by a new Sub-Section (5) of Companies (Amendment) Act, 1999, whereby any monies transferred to the Unpaid Dividend Account and which remains unpaid or unclaimed for a period of 7 years from the date of such transfer shall be transferred by the Company to "Investor Education and Protection Fund" established u/s 205C(1) of the Companies Act, 1956. The Section 205A(7) excludes the liability of the Company in respect of the sum so transferred towards the persons claiming to be entitled to the dividend so transferred and gives effectual discharge to the Company in respect of the sum so transferred. In order to bring the Articles in conformity with the aforesaid provisions of the Companies Act, 1956, your Directors recommend recasting of the said Article.

6(h) & (i) The proposed alterations in the Articles is to align them in line with the provisions of Table - A of Schedule - I of the Companies Act, 1956 and are recommended for the approval of Shareholders.

Except to the extent provided in the Articles, none of the Directors may be deemed to be concerned or interested in the Resolution.

ITEM NO. 7

Under Section 293(1)(d) of the Companies Act, 1956, the Board of Directors cannot except with the consent of the Company in the General Meeting borrow monies in excess of aggregate of paid up capital and Free Reserves of the Company. In view of the growing operations, the bank may resort to borrowing in excess of limits prescribed in the Section and accordingly sanction of the shareholders is being requested to enable the Directors to borrow monies as and when deemed fit to the extent as set out in the Resolution.

None of the Directors of the Company is concerned or interested in the Resolution.

Your Directors recommend Resolution as set out at Item No. 7 for approval.

ITEM NO. 8

The Resolution proposed under this Item is sought to be passed in order to meet the requirements of Section 228 of the Companies Act, 1956 and the Rules framed thereunder. The proposed Resolution would empower the Board to consider and select the branches in respect of which it can apply to the Central Government for exemption from Branch Audit under the Companies (Branch Audit Exemption) Rules, 1961. Loans and Advances at some of our Branches are small. These advances are within the guidelines prescribed by Company Law Board while granting exemption. Other branches are located in areas which are inaccessible during audit period with the result that the audit of such branches cannot be taken up and in case exemption for such branches is not obtained, the Accounts of the Company cannot be finalised within the statutory period. However, the Management ensures that all branches for which exemption is obtained are compulsorily got inspected by the Bank's Inspection Department.

None of the Directors of the Company is concerned or interested in the Resolution.

Your Directors recommend Resolution as set out at Item No. 8 for approval.

Regd. Office:
Corporate Headquarters,
M. A. Road,
Srinagar - 190 001
Dated: 8th May, 2002

By order of the Board of Directors

(Parvez Ahmed)
Secretary



DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS

1. GLOBAL ECONOMIC SCENARIO:

The global economy which was already showing signs of downside during the year 2001-02, received a severe blow with the tragic events of September 11. The global slowdown has been accompanied by a steep decline in world trade, consequently contracting exports from developing economies. After WTC attack in September 2001, the prospects of recovery of global economy turned bleak. Macroeconomic weaknesses were associated with an erosion of business confidence. Insurance, Airlines, Tourism and Hotel Industries were hit hard. Consequently, the world economic growth slowed down to almost 2.4% during the year 2001-02.

2. INDIAN ECONOMIC SCENARIO:

The Indian Economy could not remain insulated from the global developments. The Indian economy was already reeling under the shock from Gujarat Earthquake of January 2001 and the global economic downside followed by attack on the Parliament on 13th December, 2001 further added to its adversities. However, despite the hostile economic environment, the economy has performed relatively well during the year 2001-02. Agriculture supported by reasonable monsoon performed well and recorded a robust growth of 5.7% as against negative growth of 0.2% of the previous year; Industrial slowdown continued and overall performance of the Industrial Sector at 3.3% was much lower than 6.2% of the previous year, which contributed to the comparatively lower economic growth of around 5.5%. The basic fundamentals of the economy showed satisfactory trends. Inflation fell to a record low of 1.4%; Foreign Exchange Reserves crossed US \$ 50 billion and food stocks rose to almost 60 million tonnes. The annual growth in money supply was recorded at 14% while the reserve money grew by 11.4% during the year. The fall in petroleum prices however, provided impetus to the economy on the whole.

3. BANKING SCENARIO:

The banking system worldwide has been passing through an intense change for the last more than a decade. Mergers, amalgamations and acquisitions have been taking place on a large scale to gain size and focus more sharply on competitive strengths. The general trend has been towards downstream universal banking where banks have taken non-banking activities such as Investment Banking, Insurance, Mortgage Financing, and Securitisation. Upstream linkages where non-banks undertake banking business are also on the increase.

The face of Indian banking has also been changing rapidly ever since the financial sector reforms initiated in 1991. The reforms programme continued to focus on structural and regulatory measures to strengthen financial system and improve financial and various segments of financial market. The measures were directed towards increasing operational effectiveness of monetary policy, redefining regulatory role of RBI, strengthening prudential and supervisory norms, improving credit delivery system and developing technology

and institutional infrastructure of the Financial Sector. As a result, sophisticated product development, better market infrastructure and implementing of reliable techniques for control of risks and also help financial intermediaries to reach diversified markets has been facilitated.

In order to meet credit growth and support revival of investment demand, the provision of adequate liquidity continued to remain stance of the Monetary Policy of RBI, besides imparting greater flexibility to the interest rate regime in the medium term and continuing present stable interest rate environment and the preference for softening to the extent the situation warranted. The RBI announced several measures during the year under report.

The bank rate was reduced to 6.5%, the lowest since 1973. CRR was also reduced by 2 percentage points from 7.50% to 5.50%, releasing an additional liquidity of Rs.6000 crores in the banking system. Also, interest rate paid on eligible CRR balances increased further to the level of 6.5% (from 6% since April 2001 and 4% earlier). There was also a perceptible downward shift in secondary market yields on government securities across the maturity spectrum during the year. The yield on government securities with 1 year residual maturity moderated from 9.05% in March 2001 to 6.10% in March 2002 indicating reduction in yield by as much as 295 basis points. Similarly, the yield on government securities with 10 year residual maturity had declined by 287 basis points to 7.36% by March 2002 from 10.23% in March 2001.

4. PERFORMANCE OF THE BANK:

Maintaining excellence in its growth and business operations, our bank achieved all time high business turnover of Rs. 19335 crores during the year under report against the last year figure of Rs.15931 crores recording an impressive growth of 21.36%. The core segments of bank's business viz. Deposits, Advances, Foreign Exchange and Treasury Operations have shown an impressive growth. The excellent performance of the bank in its operations have boosted the bank's share price to an all time high of Rs. 99/- despite subdued equity market.

5. CAPITAL AND RESERVES:

The Capital & Reserves of the Bank have increased by Rs. 237 crores to Rs. 937 crores during the year from Rs.700 crores of the previous year registering an impressive growth of 33.86%. The Statutory and other Reserves of the Bank have increased by 36.55% to Rs. 889 crores from Rs.651.41 crores of the previous year which includes Rs.60 crores as investment fluctuation reserve provided for from the year under report.

6. FINANCIAL PERFORMANCE:

PROFIT:

The bank was able to post an all time high net profit of Rs.259.80 crores for the financial year 2001-02 recording an incredible increase of 55% over the last year net profit of Rs. 167.56 crores.

**INCOME:**

The total income of the bank at Rs.1610.86 crores for the year under report recorded a phenomenal growth of 39.19% over the previous year figure of Rs.1157.28 crores. The per branch and per employee income has increased to Rs. 421 lakhs and Rs.25 lakhs respectively from the previous year's figures of Rs.313 lakhs and Rs.18 lakhs.

DIVIDEND:

In view of continued excellence recorded in financial results, Directors are pleased to recommend payment of 50% Dividend for the year ended 31st March 2002, subject to approval of shareholders and RBI.

7. DEPOSITS:

The aggregate deposits of the bank have recorded an appreciable accretion of 16% to Rs.12911.11 crores at the end of financial year 2001-02 against the previous year figure of Rs.11168 crores which is much higher than the national average growth of 14%. The average deposits per branch have increased to Rs.33.70 crores from Rs30.15 crores of the previous year and the average deposit per employee stood at Rs.199 lakhs as against the previous year figure of Rs.172 lakhs.

8. ASSETS:**CREDIT PORTFOLIO:**

Notwithstanding the sluggish credit expansion at national level, the credit off-take of the Bank recorded a remarkable growth of 35% as against average national growth of 12.8% at the end of 31st March 2002. The total advances of the bank stood at Rs.6423.89 crores against Rs.4763 crores of the corresponding period of the previous year. The bank continued its commitment towards Priority Sector lending. The outstandings to Priority Sector increased by Rs.138 crores to Rs.1317 crores at the end of March 2002 from Rs.1179 crores of the previous year. Besides, the special programmes for poverty alleviation and eradication of unemployment sponsored by the J&K State and Central Government continued to receive due attention of the bank during the year.

INVESTMENT PORTFOLIO

The focus of the bank's Investment Policy centered around maximization of return on invested funds by investing in safe and liquid securities. During the year 2001-02, the investment portfolio has recorded a modest growth of 6.03% to Rs. 5752.54 crores from Rs.5424.94 crores of the previous year. The yield on investment worked at 11.63% YOY basis, which is quite appreciable considering the falling interest rate regime. With an aggressive secondary market trading, the Bank recorded an annual turnover of about Rs. 21,000 crores, which enabled it to book a profit of Rs. 206.74 crores thereby improving the overall yield to 15.31% against 13.49% of the previous year.

All the securities are bifurcated into three categories i.e., held till maturity, available for sale and held for trading as per the RBI guidelines. Valuation of the portfolio and income recognition thereof has been accomplished in accordance with Fixed Income Money Market Derivatives Association of India (FIMMDA) rates and prudential norms as prescribed by RBI.

9. NON-PERFORMING ASSETS:

The Bank continued its efforts to reduce its non-performing assets. With the strenuous efforts and enhanced recovery drive coupled with stress on sound asset quality and prevention of fresh slippages, the bank has been able to further reduce its NPA level. The gross NPAs of the bank have come down to 3.6% from 4.57% of the previous year and net NPAs have reduced to 1.88% against 2.45% of the previous year, which is one of the lowest in the industry.

10. FOREIGN EXCHANGE:

The Foreign Exchange business of the Bank recorded a turnover of Rs. 2954.44 crores against the previous year figure of Rs.2402.06 crores showing an appreciable growth of 23%. The contribution of this segment to the bank's profit has been Rs.18.93 crores against Rs.13.96 crores of the previous year. The Export Turnover of the Bank increased from Rs.1166.89 crores to Rs.1339.11crores registering a growth of 15%. At the same time the Business Turnover of Dealing Room and Treasury Operations has increased to Rs. 57067.70 crores from last year's figure of Rs.30550.08 crores, recording a discernable growth of 86.80%. The Dealing Room's operations have yielded a profit of Rs.3.30 crores during the year under report against Rs.2.75 crores of the previous year.

11. CAPITAL ADEQUACY RATIO:

The Capital Adequacy Ratio stood at 15.46%, which is much above 9% bench mark prescribed by Reserve Bank of India.

12. NEW PRODUCTS:

Devising of innovative, customer friendly value added products is vital ingredient of our Marketing Strategy. In keeping with the said principle during the year 2001-2002, the bank launched several new deposit schemes/services which include "Child Care Deposit Scheme," "Flexi Deposit Scheme," "Millennium Deposit Scheme," "Automatic Renewal of Term Deposits," "Sweep facility in term deposits." Besides, "Mortgage Loan" a new credit product was added to the range of bank's retail and personal credit products during the year under report.

13. INFORMATION TECHNOLOGY:

The Bank continued its thrust on modernization and computerization of its operations to extend greater convenience and value added services to its customers. The number of the computerised branches which was 205 as on 31.3.2001 has gone up to 241 at the end of March 2002 thereby covering more than 80% of the bank's business. During the year many new IT supported services were introduced at computerised branches which include AnyWhere Banking, Tele-banking etc. The number of branches where Tele-Banking facilities were introduced during the year increased to 22, AnyWhere Banking branches number increased to 24 besides increasing the number of the ATM installations to 45 of which 13 ATMs have been networked through IST SWITCH. The bank is in the process of setting up its DATA centre at Delhi for which creation of infrastructure is in progress. With the completion of the said centre, the bank will introduce Internet Banking for which MoU has since been signed with M/S Infosys Tech. Ltd.

**14. BANK'S WEBSITE:**

Bank's web site which was hoisted in 1997 as a simple website has fast moved to a dynamic state and today occupies the place of one of the best banking websites on the World Wide Web. Our own staff in association with the concerned agency is undertaking the content development, image editing and layouts of web site for content placement. The website provides the visitor up-to-date information about all the products/services offered by the bank or any other matter concerning the bank besides, providing some on-line services. The updating is being undertaken in-house on daily basis so as to provide the visitors latest information about the bank. The site attracts on an average 500 visitors weekly.

15. MARKET RESEARCH AND ADVERTISING:

Marketing and Research Cell which was created at Corporate Headquarters last year in tune with the PWC recommendations has come up with various value added products and services to suit customer expectations and requirements. The Cell on continuous basis conducts the market research and identifies the needs and expectations of the customers and accordingly shapes products / services. Reaching existing and potential customers through effective communications is vital for business growth in a competitive environment. Keeping this in view creative promotional campaigns were undertaken to create a strong "Brand Identity" for the bank. With multiple options available to customers in shopping their products, more focus was laid on retail advertising during the year and extensive promotional campaign through print and electronic media was undertaken which showed significant results in the form of increased demand for the bank's products and customer base.

16. JK BANK DIARY:

In order to put across the message of the bank to a wide audience and strengthening marketing acumen, bank is running a 20 minute sponsored radio programme, broadcast through Radio Kashmir, Jammu and Radio Kashmir, Srinagar. The programme is being produced by bank's own professionals and is running successfully for last 7 months. The programme has gained much popularity among the audience as it provides the people up-to-date information about products/services offered by the bank. People from all walks of life with their responses have appreciated the usefulness of the programme and its reach and popularity can be gauged from the fact that hundreds of responses are received every week.

17. DEPOSITORY PARTICIPANT:

In congruence to the commitment of the bank to provide state-of-the-art financial services to its existing and prospective customers, the bank joined hands with NSDL and started its Depository Services Operation from Delhi, Srinagar and Jammu on 23rd March, 2001 as the first ISO 9002 certified Indian Bank DP with internet enabled Back-office Software. Within a short span of one year, it has fast emerged as the most preferred DP in the market providing quality services to more than 4000 customers with custody of securities worth Rs. 915 crores. In J&K state, the DP is poised to become the market leader out-performing all other players in the DP segment. As a step towards fulfilling the

market needs, the bank is all set to become a DP with CDSL too and introduce a bevy of value-added products including loan against shares.

18. DEBENTURE TRUSTEES AND BANKERS TO AN ISSUE:

During the year, the Bank has acted as Debenture Trustee in respect of various Bond Issues aggregating to Rs.767 crores. The Bank has also collected funds in respect of various Bond Issues aggregating to Rs.396 crores by acting as Bankers to an Issue.

19. CUSTOMER SERVICE:

Bank's every strategy is aimed at maximizing the value to its customers. Care and improvement in quality of customer service continues to be on the priority list of the bank. The Bank continued its efforts to improve customer service and take it to new heights. 128 'Customer Advisory Fora' have been constituted at every major branch of the bank. In monthly meetings of these fora the Branch Managers and customers interact and various customer-related issues are tackled on priority basis. The Bank has put in place a very efficient complaint redressal mechanism and customer queries and complaints are handled on priority. 'Customer Suggestion Card', was launched during the year under report and has been kept available at all branches of the bank. Customers accessing website of the bank can send their queries through e-mail. Such queries are usually responded immediately. Bank has already started 7-days week operations at selected branches to extend banking facilities even on Sundays besides, world class banking services like Tele-Banking, AnyWhere Banking and ATM network available any time, anywhere round the clock.

20. EXPANSION PROGRAMME:**BRANCH EXPANSION:**

With a view to exploring the new business opportunities and increasingly reach to new markets, the bank has been opening new branches selectively at centres offering highest business potential. In keeping with this objective the bank opened 19 new branches which include 6 Ext. Counters during the period under report raising the total number of branches to 441 from 426 of the previous year. The most notable of these branches have been opened at Kochi and Thiruvananthapuram in the state of Kerala where the bank had no prior presence.

HISTORY IN THE MAKING:

The bank created a history, when it took over the Srinagar Branch of Standard Chartered Grindlays Bank along with its assets and liabilities. This is the first time in Indian banking history when any Private Sector bank has takenover a branch of Foreign Bank. The deeds of conveyance for handover/takover of the branch were signed on 01-02-2002 and it started operations at Polo View branch of our bank from 2nd Feb. 2002.

21. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES:

Development of human resources to cope up with the rapidly changing banking scenario has been the focus of bank's HRD policy. As the quality of human resources indicates the ability of bank to deliver value to its customers, foremost attention is being given to development of skill, attitude and



knowledge of personnel. The bank lays prime emphasis on integrating HRM strategies with business strategies. HRM strategies of the bank include managing change, creating commitment, achieving flexibility and improving teamwork. In order to achieve excellence in this critical area, 2103 staff members (1363 officers, 717 clerks, 23 subordinates) were trained at Bank's Staff Training Colleges, Srinagar/Jammu and other Institutes of repute within and outside the country in various banking, economic and I.T. related fields. In order to boost the morale of staff, bank unilaterally adopted a revised salary package for its employees, which is one of the best in the industry. The bank has introduced a merit based promotion policy to further encourage talent, efficiency and motivation of the staff.

22. PARTICULARS OF EMPLOYEES:

There were no employees who were in receipt of remuneration within the limits prescribed under Section 217 (2A) of Companies (Particulars of Employees) Rules, 1975.

23. PREMISES:

For the better working environment, our Bank has been in constant look out for office premises with good ambience on lease as well as on ownership basis. During the year under report the bank acquired owned premises for several branches which include branches at Pune, U.Campus (Jammu), I/C Bari Brahmana (Jammu), Lal Mandi (Srinagar) and proposed branch at Bandra (Mumbai) besides bank premises for Corporate Headquarters and acquisition of the building for Polo View, Srinagar Branch premises. The construction work of Zonal Office, Kashmir and International Banking Division is going on at full swing and it is likely to be completed by the year 2002. The construction of flats for the staff at Delhi is nearing completion.

24. MILESTONE ACHIEVED:

The bank's long cherished dream came true when Mr Yashwant Sinha, Union Finance Minister, inaugurated the new Corporate Headquarters of the bank at an impressive ceremony held on September 2, 2001 at Srinagar. The five storeyed building with a double storeyed annexe is the best building in the state. The building with all the modern facilities including an auditorium was completed in a record time of three years by a local construction company. The building provides a very good environment for the staff to discharge their duties more effectively and efficiently.

25. DIVERSIFICATION AND OPPORTUNITIES:

METLIFE JK BANK JOINT VENTURE:

Our bank joined hands with MetLife International (USA) in floating MetLife India Insurance Co. Pvt. Ltd. MetLife India formally launched its operations in the state of J&K on 7th and 8th March, 2002, at impressive ceremonies held at Jammu and Srinagar respectively which among others were attended by Mr Bill Toppeta, President, MetLife International (USA) and Dr Farooq Abdullah, Hon'ble Chief Minister, J&K State. Our bank has already received in principle, approval from RBI to act as Corporate Insurance Agents and will be marketing the life products of MetLife India through its strong branch network after IRDA permission is received. Bank has also entered into an alliance with Bajaj Allianz to distribute their non-life products. As Marketing Agents of both

these renowned companies bank expects to enhance its non-interest income to further boost its profits besides converting our branches into financial super markets.

MAESTRO DEPOSIT ACCESS PROGRAMME:

Our bank took another major decision to launch Maestro Deposit Access Programme in collaboration with MasterCard International- leaders in the debit card arena. The Cardholders of our bank will be now able to purchase goods and services at all Maestro acceptance locations in India and Overseas; and will also be able to withdraw cash globally through the MasterCard Maestro/Cirrus network of 2100 ATMs in the country and 6.35 lakhs worldwide.

26. LEAD BANK RESPONSIBILITY:

Our Bank has the distinction of being the only Private Sector Bank entrusted with the responsibility of Convenorship of State Level Bankers' Committee (SLBC) by the Reserve Bank of India. The Bank continued to discharge Lead Bank Responsibility in 8 out of 14 districts of J&K State. Three State Level Bankers' Committee Meetings and two Sub-Committee Meetings of State Level Bankers' Committee (SLBC) were convened during the year 2001-02. The district credit plans were prepared in time and their implementation monitored closely at the State Level.

27. REGIONAL RURAL BANKS:

The two Regional Rural Banks sponsored by our Bank have shown commendable performance during the period under review. The deposits of Jammu Rural Bank have increased by Rs.65.73 Crore from Rs.343.48 Crore as on 31-3-2001 to Rs.409.21 Crore during the financial year ended 31-3-2002. Advances have increased from Rs.61.29 Crore as on 31-3-2001 to Rs.70.11 Crore as on 31-3-2002. The Bank has registered an operating profit of Rs.9.21 Crore during the period under review.

The deposits of Kamraz Rural Bank have increased by Rs.30.35 Crore during the year from Rs.156.85 Crore last year to Rs.187.20 Crore as on 31-3-2002. The Gross Advances have increased from Rs.29.35 Crore as on 31-3-2001 to Rs.32.11 Crore as on 31-3-2002. The Bank has registered an operating profit of Rs.1.03 Crore during the period under review.

28. TRUST:

The bank started its quarterly publication in the form of an in-house journal "TRUST", from September 1997. The layout and designing of the magazine, which is being done by our own professional has given the magazine a better look. In an environment of fast changing banking scenario, the Journal has bridged the gap of information needs of employees of the bank at all levels and provides the information regarding latest developments taking place in the banking industry. Besides updating the knowledge of the staff about the latest trends prevailing in the industry, it has successfully inculcated the writing/reading habits among the staff members.

29. COMMUNITY SERVICE:

The bank has not only earned the name as a financial heart but also as a social heart of the society owing to its continued concern for the poor and needy. Be it fire victims, earthquake



victims or patients with serious ailments who have no means to fall back upon for their survival, the bank has always been on the frontline to support them.

During the year 2001-02, bank has come to the rescue of various social organizations and deserving individuals and donated more than Rs.11 lacs for the said cause.

The Bank continued to adopt orphans by giving donations generously to orphanage homes besides donating computer systems to enable the socially / economically deprived children to get benefit of the IT knowledge.

30. PROMOTING SPORTS:

The bank continued to support various sporting activities in the State and donated generously to various sports organizations for promotion of sports. The Bank's football team participated in Inter Bank and other prestigious tournaments held during the year and won many winners' trophies.

31. RATING OF BANK'S DEBT INSTRUMENT:

CRISIL- one of the leading Credit Rating Agencies 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 principle and interest.

32. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

Our existing system takes care of most of the aspects of the "Risk Management". We have well-defined Credit & Investment policies wherein different parameters like Portfolio Management, Processes, Procedures, Prudential limits, exposures to industries and other sectors are clearly articulated. The operational risks are being regularly monitored.

However, in order to make the decision-making more realistic and scientific we have appointed National Institute of Bank Management (NIBM), Pune as our consultants in the areas of Asset Liability Management and Risk Management. They shall provide the consultancy as also "Decision Support System (DSS)" to the bank on ALM, Investment Portfolio and Credit Risk Management.

For speedy and accurate flow of information, the NIBM has already developed a software package for ALM. The package has been test checked in some branches and requisite reports successfully generated. The package once fully implemented at operative levels would make flow of information quicker and decision making more scientific. The NIBM has also developed DSS for investment portfolio and given their suggestions with regard to Credit Risk Management.

33. CORPORATE GOVERNANCE:

The Bank continues to adopt best procedures in the area of Corporate Governance. We believe that good Corporate Governance ultimately leads to good corporate performance and excellence. Towards this end, Bank complies with all its statutory formalities and follows governance principles to achieve greater degree of openness, transparency, integrity and accountability in the working of the Institution. A report on the Corporate Governance highlighting the practices followed by the bank and a certificate by the Central Statutory Auditors regarding the compliance of the conditions of corporate governance by our bank as stipulated in clause

49 of the Listing Agreement with Stock Exchanges, are enclosed herewith as annexure to this Report.

34. BOARD OF DIRECTORS:

With the view to broad-base the Board, eminent personalities- Dr. A. M. Khushro, Mr. Vipin Malik and Mr. G. P. Gupta were appointed/re-appointed as Directors on the Board of the Bank and bank has been immensely benefited due to their rich and varied experiences. Mr. J.B. Bhorla, Regional Director, RBI was nominated as Director in place of Mr. Radhey Shyam and his association with the Bank has proved to be a great asset. Mr. M. I. Shahdad, Director retires by rotation at the ensuing Annual General Meeting in accordance with Article 76 of the Articles of Association of the Bank and the provisions of the Companies Act, 1956 and being eligible offers himself for re-appointment.

Mr. H. S. Anand, Director retires by rotation at the ensuing Annual General Meeting in accordance with Article 76 of the Articles of Association of the Bank and the provisions of the Companies Act, 1956 and being eligible offers himself for re-appointment.

35. DIRECTORS RESPONSIBILITY STATEMENT:

The Board of Directors hereby confirm: -

- i) that in the preparation of the Annual Accounts for the year ended March 31st, 2002, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any;
- ii) that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profits of the bank for the year ended on March 31st, 2002;
- iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of applicable laws for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv) that Annual Accounts have been prepared on a going concern basis.

36. ACKNOWLEDGEMENTS:

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 Central Govt., Govt. of Jammu & Kashmir, NABARD, SIDBI, SEBI, IBA, IRDA, Stock Exchanges, Department of Company Affairs, Registrar of Companies, Comptroller and Auditor General and Auditors. The Directors also thank the customers and shareholders of the Bank for their valuable support. The Directors place on record deep appreciation for the work done by the members of the staff at different levels, which enabled the Bank to record enviable growth and consolidate its position as one of the leading banks in the country.

FOR AND ON BEHALF OF THE BOARD

Place : Srinagar
Dated: 08.05.2002

(M.Y. KHAN)
Chairman



AUDITORS' REPORT

TO THE SHAREHOLDERS OF THE JAMMU AND KASHMIR BANK LIMITED.

1. We have audited the annexed Balance Sheet of The Jammu and Kashmir Bank Limited as at 31st of March 2002 and also the annexed Profit and Loss Account of the Bank for the year ended on that date in which are incorporated the returns of (i) 39 Branches/Offices audited by us (ii) 382 Branches/Offices audited by other auditors (iii) 5 Branches in respect of which exemption has been granted by the Central Govt., under rules 4(1)(a) of the Companies (Branch Audit Exemption) Rules 1961 in terms of provisions of Sub Section (1) and (3) of Section 226 of the Companies Act, 1956. 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 conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The Balance Sheet and Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Sub Section (3C) of Section 211 of the Companies Act, 1956 subject to our comments in Para-5 here-in-under.
4. The report on account of the Branches audited by Branch auditors have been dealt with in preparing our report in the manner considered necessary by us.
5. On the basis of audit indicated in the paragraph (1&2) above and subject to the following:
 - A. Effect of the following on the accounts remained unascertained:
 - a. Regarding Non-reconciliation of Suspense, Sundry Deposit, Clearing adjustments, Inter-Branch and Inter-Bank Accounts and cash agency account (Refer Note No. 1 of Schedule 18).
 - b. Regarding revaluation of Foreign Exchange Transactions as per FEDAI Rules, which is inconsistent with AS-11 issued by the Institute of Chartered Accountants of India (Refer Accounting Policy 2-Schedule 17).
 - c. Regarding Non-execution/Non-Registration of Title Deeds in respect of certain premises (Refer Note No. 3 of Schedule 18).
 - d. Leave Encashment benefits accounted for on cash basis, which is not in accordance with the Accounting Standard 15, issued by the Institute of Chartered Accountants of India (Refer Accounting Policy 6-Schedule 17).
 - e. Certain income/expenditure have been accounted for on cash basis which is not in accordance with Accounting Standard 9 issued by the Institute of

Chartered Accountants of India and is in variance to Accounting standards notified U/S 145 (2) of the Income Tax Act, 1961, (Refer Accounting Policy 7-Schedule 17).

- f. Regarding charging of depreciation at Income Tax Rates instead of rates prescribed in Scheduled XIV read with Section 205 of the Companies Act, 1956 (Refer Accounting Policy No. 5-Schedule 17).
- g. Acceptance of Classification/Provisioning of Advances of un-audited branches as per Bank's decision.
- B. Regarding TDS recovery from employees of amount paid to Income Tax Department for default in deduction of Tax at source from salaries of Employees for the financial year 1988-89 to 1996-97 against which suit is pending in the court of law (Refer Note 13-Schedule 18).
- C. Regarding disclosure of information for lending to sensitive sector and Maturity pattern of assets/liabilities respectively (Refer Note No. 19 (b) and (c)-Schedule 18).
- D. Prior period expenditure and prior period income has not been disclosed separately as required by Accounting Standards 5, (revised) issued by the Institute of Chartered Accountants of India.
- E. Capital Adequacy and Business Ratios have been compiled by the Bank and relied upon by us.

WE FURTHER 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 law have been kept by the Bank so far as appears from our examination of those books and subject to our observation in Paras 1 to 5 above and acceptance of classification/ Provisioning of Advances of un-audited branches as per Bank's decision, proper returns adequate for the purpose of our audit have been received from the branches of the Bank.
- d) The Bank's Balance Sheet and Profit and Loss account dealt with by this report are in agreement with the books of account and their returns.
- e) On the basis of written representations received from the directors, as on 31st of March 2002, and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st of March 2002 from being appointed as a director in terms of clause (g) of Sub-Section (1) of Section 274 of the Companies Act, 1956;
- f) The said accounts read together with Principal 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, 2002 and
 - 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.

For K.B. Sharma & Co.
Chartered Accountants

Sd/-
(K.B. Sharma)
Partner

Place: Srinagar
Dated: 8th May, 2002

For Baweja & Kaul
Chartered Accountants

Sd/-
(Samvit K. Gurtoo)
Partner

For Verma & Associates
Chartered Accountants

Sd/-
(Madan Verma)
Partner