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An Empirical Study on Corporate Governance in Indian Banking Sector

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Submitted by

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Certificate of Guide

This is to certify that Mr. Bhavik M. Panchasara has carried out the research work on the topic "An Empirical Study on Corporate Governance in Indian Banking Sector" under my guidance and supervision for the award of degree of Doctor of Philosophy in Commerce under Saurashtra University, Rajkot.

I also certify that this is his original work and the same has not been submitted for any other degree, diploma or distinction in either Saurashtra University or any other University.

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Declaration

I, the undersigned Mr. Bhavik M. Panchasara hereby declare that the research work presented in this thesis on 'An Empirical Study on Corporate Governance in Indian Banking Sector' is my own original work carried out under the guidance of Dr. Shailesh J. Parmar, Professor, Department of Commerce and Business Administration, Saurashtra University Rajkot.

I further declare that no part of this work has been submitted to this or any other university for any degree or award.

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PREFACE

> "It is important to note that commercial banks and other deposit taking financial institutions have special governance risks and complexities since: (i) banks take large amounts or risk bearing (and thus forward looking) obligations on their books, and hence weak internal controls and accountability can cause urgent and rapid crisis; (ii) the collapse of bank will usually destroy value for its public depositors, not just shareholders, and may even require a costly bail out by the fiscal authorities; and (iii) there is the systematic risk that the collapse of a single bank can undermine the entire banking system. Because of these special governance risks, banks are usually required by law or regulation to have certain specific governance structures and reporting standards."
>
> - Luncheon address by Dr Y V Reddy, Governor of the Reserve Bank of India, at the Seminar on Corporate Governance for Bank Directors organised by the Indian Institute of Management, Bangalore; International Institute of Finance, Washington and the Indian Banks' Association, Mumbai, 16 December 2005.

The last decade has seen many positive developments in the Indian Banking sector. The policy makers, which comprise the Reserve Bank of India, Ministry of Finance and related government and financial sector regulatory entities have made several notable efforts to improve regulation in the sector. But apart from this, the sector could not kept itself free from the global trends and its effects.

The most recent and acute evidence of the effects of globalization can be exemplified by the issue of the global financial crisis and its spill over effect on the economy of almost all countries. Globalized or connected economies left no country untouched from the consequences of the crisis. The sources of the crisis may be limited to some developed economies, but developing economies are not also free from having potential risks in this regard, though in slightly different form and of a varied degree.

A large number of reforms have been proposed and initiated by both various multilateral and country specific government and regulatory bodies especially after the financial crisis to improve the global corporate governance principles and standards. Risk management, executive compensation, capital requirements, and financial sector tax (i.e. banking tax) are some of the aspects where both developments and debate are continuing.

This study focuses the quality of corporate governance in Indian Banking sector in this regard. The present study is based on analysis of corporate governance practices of selected top Indian Banks which possess significant share in Indian Banking sector as well as in market capitalization. To evaluate the corporate governance practices of the banks, researcher has considered the papers prepared by the UN secretariat for the nineteenth session of ISAR (International Standards of Accounting and Reporting), entitled “Transparency and disclosure requirements for corporate governance” and the twenty second session of ISAR, entitled “Guidance on Good Practices in Corporate Governance Disclosure”.

Accordingly researcher has prepared the corporate governance disclosure index divided in two categories of financial disclosures and non financial disclosures and same way banks also divided as public sector banks and private sector banks. After deciding the corporate governance disclosure index for all the selected banks, the researcher has applied different statistical tools to test the hypothesis of the study. To know the effects of different factors on corporate governance disclosure index, the researcher has used multiple correlation and regression analysis and for testing of hypothesis, run test, t test, f test and ANOVA.

Last chapter provides the detailed discussion regarding the summary of the study, major findings by the researcher and suggestions to overcome the major limitations of the banks in the area of corporate governance practices. Thus this study is a relook in the governance practices followed by the Indian Banks and to evaluate the same with international standards of good governance.

Mr. Bhavik M. Panchasara

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Mr. Bhavik M. Panchasara

List of Abbreviations

ACGA	Asian Corporate Governance Associations
AGM	Annual General Meeting
Allah Bank	Allahabad Bank
BIS	Bank for International Settlement
BoB	Bank of Baroda
BoI	Bank of India
BSE	Bombay Stock Exchange
CEO	Chief Executive Officer
CG	Corporate Governance
CGDI	Corporate Governance Disclosure Index
CII	Confederation of Indian Industry
Cnr Bank	Canara Bank
CRISIL	Credit Rating Information and Services Limited
CSR	Corporate Social Responsibility
DIIs	Domestic Institutional Investors
EBT	Earnings before Tax
EBIT	Earnings before Interest and Tax
FDI	Foreign Direct Investments
Fed Bank	Federal Bank
FIIs	Foreign Institutional Investors
GCGF	Global Corporate Governance Forum
GDP	Gross Domestic Product
ICAI	Institute of Chartered Accountants of India
ICGN	International Corporate Governance Network
ICRA	Indian Credit Rating Agency
ICWAI	Institute of Cost and Work Accountants of India

ID	Independent Director
IFC	International Financial Corporation
IMF	International Monetary Fund
Ind Bank	IndusInd Bank
IOSCO	International Organization for Securities Commissions
IOB	Indian Overseas Bank
Karn Bank	Karnataka Bank
KM Bank	Kotak Mahindra Bank
MENA	Middle East and North Africa
MoF	Ministry of Finance
MSWG	Minority Shareholder Watchdog Group
NSE	National Stock Exchange
OBC	Oriental Bank of Commerce
OECD	Organization for Economic Co-operation and Development
PAT	Profit after Tax
PNB	Punjab National Bank
RBI	Reserve Bank of India
ROSC	Reports on the Observance of Standards and Codes
RPTs	Related Party Transactions
SEBI	Securities and Exchange Board of India
SBI	State Bank of India
UBI	Union Bank of India
WB	World Bank

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CHAPTER 1

OVERVIEW OF CORPORATE GOVERNANCE AND CONCEPTUAL FRAMEWORK

1. Introduction:

The Indian financial sector comprises a large network of commercial banks, financial institutions, stock exchanges and a wide range of financial instruments. It has undergone a significant structural transformation since the initiation of financial liberalization in 1990s. Before financial liberalization, since mid 1960's till the early 1990', the Indian financial system was considered as an instrument of public finance[i]. The evolution of Indian financial sector in the post independent period can be divided in to three distinct periods. During the first period (1947-68), the Reserve Bank of India (RBI) consolidated its role as the agency in charge of supervision and banking control. Till 1960's the neo-Keynesian perspective dominated, argued interest rates should be kept low in order to promote capital accumulation[ii]. During this period Indian financial sector was characterized by nationalization of banks, directed credit and administered interest rates[iii]. The second period (1969 - mid 1980's), known as the period of financial repression. The financial repression started with the nationalization of 14 commercial banks[iv] in 1969. As a result interest rate controls, directed credit programmes, etc. increased in magnitude during this period[v]. The third period, mid 1980's onwards, is characterized by consolidation, diversification and liberalization.

However a more comprehensive liberalization programme was initiated by the government of India during early 1990's.The impetus to financial sector reforms came with the submission of three influential reports by the Chakravarty Committee in 1985, the Vaghul in 1987 and the Narasimham Committee in 1991. But the recommendations of the Narasimham Committee provided the blueprint of the reforms, especially with regard to banks and other financial institutions. In 1991, the government of India initiated a comprehensive financial sector liberalization programme. The liberalization programme includes de-controlled interest rates, reduced reserve ratios and slowly reduced government control of banking operations while establishing a market regulatory framework[vi].

The major objectives of the financial liberalization were to improve the overall performance of the Indian financial sector, to make the financial institutions more competent and more efficient. As mentioned earlier, the financial sector comprises commercial banks, stock exchanges and other financial institutions. However, Indian financial system continues to be a bank based financial system and the banking sector plays an important role as a resource mobiliser. It remains the principal source of resources for many households, small and medium enterprises and also caters the large industries. And also provides many other financial services. Underlining the importance of the banking sector, several banking sector specific reforms as a part of financial reforms were introduced to improve the performance of the Indian banking sector and to make the Indian banks more competent and efficient. Against this backdrop, the present paper intends to study the corporate governance of the Indian banking sector.

1.1 Background of the Research:

> *"It is now widely agreed that corporate governance failings were not only the cause of the crisis but they were highly significant, above all because board failed to understand and manage risk and tolerated perverse incentives. In turn, shareholders lacked information and at times, motivation to address the gathering problems. Whilst it is clear that there were regulatory failures, it is also evident that enhanced governance practices should therefore be integral to overall solution aimed at reforming the confidence to markets and helping us to protect us from future crisis."*
>
> - *Second ICGN statement on the global financial crisis, 23 March 2009.*

The most recent and acute evidence of effects of globalization can be exemplified by the issue of Global Financial Crisis and its spill over effect on the economy of almost all countries. Globalised or connected economies left no country untouched from the consequences of the crisis. The sources of the crisis may be limited to some developed economies, but developing economies are not also free from having potential risks in this regard, though in slightly different form and of a varied degree. The crisis is indeed to a great extent attributed to the failures in ensuring good corporate governance practices. Various research and policy papers has identified absence of a strong risk management framework in the financial institutions, lack of sufficient disclosures of both financial and nonfinancial information, inefficient accounting standards and regulatory requirement, and remuneration system of the executives etc as some of the CG failures that resulted in the worst financial crisis the world have seen since great depression of 1930. The current crisis has also questioned the government and regulatory bodies, the board, and the credit rating agencies for their inefficient role in ensuring good corporate governance.

According to Federal Deposit Insurance Corporation (FDIC)[vii], 702 banks were considered as troubled banks and problem assets totalled $402.8bn at the end of 2009. The FDIC took over 140 banks in 2009 and FDIC also expected total bank failure to cost $100 from 2008 to 2013. Therefore, the current financial crisis has provided a lesson on how the collapse in the global banking sector impacts the entire world economy e.g. shrink in world Gross Domestic Product (GDP), huge number of bankruptcy, massive bailout from tax payers money (Table 1.1 provides the fiscal growth of world GDP and decline in GDP per capital), losses of millions of jobs, large decline in trade flow, and foreign direct investment and also credibility of the global financial system is questioned among others. Table 1.2 highlights the rate of growth of world GDP and number of countries who's GDP has declined due to current global financial crisis.

TABLE 1.1: Fiscal Stimulus to address the global financial and economic crisis*

Countries	Share of GDP (Percentage)	Fiscal Stimulus (Billions of US $)	Countries	Share of GDP (Percentage)	Fiscal Stimulus (Billions of US $)
Argentina	1.2	3.9	Luxembourg	3.6	2.0
Australia	4.7	47.0	Malaysia	5.5	12.1
Austria	4.5	18.8	Mexico	2.1	22.7
Bangladesh	0.6	0.5	Netherlands	1.0	8.4
Belgium	1.0	4.9	New Zealand	4.2	5.4
Brazil	0.2	3.6	Nigeria	0.7	1.6
Canada	2.8	42.2	Norway	0.6	2.9
Chile	2.4	4.0	Peru	2.6	3.3
China	13.3	585.3	Philippines	4.1	7.0
Czech Republic	1.8	3.9	Poland	2.0	10.6
Denmark	2.5	8.7	Portugal	1.2	3.0
Egypt	1.7	2.7	Russian Federation	1.2	20
Finland	3.5	9.5	Saudi Arabia	12.5	60.0
France	1.3	36.2	Singapore	5.8	10.6
Georgia	10.3	1.3	Slovenia	1.0	0.5
Germany	2.2	80.5	South Africa	1.5	4.2
Honduras	10.6	1.5	Spain	0.9	15.3
Hong Kong SAR**	5.2	11.3	Sri Lanka	0.2	0.1
Hungary	10.9	17.0	Sweden	2.8	13.4
India	3.2	38.4	Switzerland	0.5	2.5
Indonesia	1.4	7.1	Taiwan Province of China	3.9	15.3
Israel	1.4	2.8	Thailand	14.3	39
Italy	0.7	16.8	Turkey	5.2	38.0
Japan	6.0	297.5	United Kingdom	1.4	38
Kazakhstan	13.8	18.2	United Republic of Tanzania	6.4	1.3
Kenya	0.9	0.3	United States	6.8	969.0
Korea	5.6	53.4	Viet Nam	9.4	8.4
Lithuania	1.9	0.9			
			All 55 economies	4.7	2,633
			World	4.3	

Based on UN/DESA information from various sources. Note that the definition and contents of the policy measures vary from country to country and that the size of the packages may not be fully comparable across countries.
** This list of countries and economies is not exhaustive.*
*** Special Administrative Region of China.*

Source: World Economic Situation and Prospects: Global Outlook 2010, United Nations, New York 2009

TABLE 1.2 World Gross Domestic Products (GDP Growth)

Year	Growth of World Output	Decline in GDP per capita (Number of countries)
2007	3.9	11
2008	1.9	30
2009*	-2.2	107
2010**	2.4	25

Source: World Economic Situation and Prospects: Global Outlook 2010, United Nations, New York 2009 (Partly Estimated, ** Forecasts)*

Banks, being the most important vertebrae of a country's economic backbone, requires sound CG practice and proper monitoring of their compliance. Steps to do this will vary from country to country but there must be a standard regulation and practice. In addition to the role played by the government and regulatory bodies and respective industries in different jurisdictions, a number of multilateral organizations have long been advocating to promote best CG practices across the world. Organization for Economic Cooperation and Development's (OECDs)[viii] principles on CG has been using as a benchmark for almost all the countries in the World. In addition, Basel committee's guideline on enhancing CG for banking organization is also a reference point for improving the CG practices in the banking sector.

In India, the role of banking sector is worth mentioning. Being the largest source of finance, banking sector is also one of the major sources for employment. In addition, Indian banks, the dominant financial intermediaries in India, have made good progress over the last five years, as is evident from several parameters, including annual credit growth, profitability, and trend in gross non-performing assets (NPAs). While the annual rate of credit growth clocked 23% during the last five years, profitability (average Return on Net Worth) was maintained at around 15% during the same period, and gross NPAs fell from 3.3% as on March 31, 2006 to 2.3% as on March 31, 2011. Though India have not seen any major collapse in the banking sector due to current global financial crisis, however, currently, Indian banks face several challenges, such as increase in interest rates on saving deposits, possible deregulation of interest rates on saving deposits, a tighter monetary policy, a large government deficit, increased stress in some sectors (such as, state utilities, airlines, and microfinance), restructured loan accounts, unamortised pension/gratuity liabilities, increasing infrastructure loans, and implementation of Basel III.

Therefore, a study on CG practices in the banking sector of India will be helpful for knowing the current status of the CG in the banking sector and also be helpful to identify the areas where actions are necessary to improve the governance in the banking sector. This research work tried to capture the latent demand of various stakeholders in India by conducting a comprehensive study to determine the corporate governance practices in the banking sector of India.

2. Corporate Governance: Definition and Importance

"Happy companies have robust growth in revenues, strong balance sheets and healthy profits that reflect genuine business success, not phony book keeping. And they share other important traits as well. They abide by high ethical standards, which is a key to their solid success. They don't obstruct the flow of information to shareholders, but rather view the shareholder as the ultimate owner and the ultimate boss. They choose directors on the strength of their abilities, character and capacity for independent judgment. And their internal controls work well, so that the company's executives can take immediate corrective action when something goes wrong."

-- Chairman Christopher Cox,
U.S. Securities and Exchange Commission,
Washington D.C., March 21, 2006.
(Remarks before the Committee for Economic Development.)[ix]

Corporate Governance is about commitment to values and ethical business conduct. It is related with how an organization is managed, which includes its corporate and other structures, its culture, policies and the manner in which it deals with various stakeholders. Timely and accurate discloser of information regarding the financial situation, performance, ownership and Governance of the company is an important part of Corporate Governance. It improves public understanding of the structure, activities and policies of the organization. Consequently, the organization is able to attract investors and enhance the trust and confidence of the stakeholders.

The genesis of Corporate Governance lies in business scams and failures. The Watergate scandal, the junk bond fiasco in USA and the failure of Maxwell, BCCI and Polypeck in UK resulted into setting up of the Treadway committee in USA and the Cadbury committee in UK on Corporate Governance. The guiding principle being "transparency and ethics" should govern corporate world. Increasing strategic importance of professional management probably constitutes the most important aspect of changing profile of Corporate Governance. Growing importance of profession, which never figured predominantly in the ideological thinking in the nineteenth century has dominated public discussion in twentieth century and will continue to dominate in times to come. Given the global challenges, the only choice left with business and economic enterprises is to follow the Corporate Governance practices – the path for living, working, surviving, successing and the excelling in the future.

2.1 Governance and Management:

By and large the terms 'governance' and 'management' are used interchangeably though conceptual difference exits between the two. The basic difference lies in activity orientation – the governance is "strategy oriented" whereas management is "task oriented". The management concerns itself with 'execution of tasks' in order to achieve pre-determined goals and objectives. The focus under governance is wider than management; it encompasses framing of policy and ensuring disclosure and transparency. The focus under 'management' is internal – to control, direct and monitor the activities of the management personnel and executives and to make them accountable for proper implementation of pre-determined polices.

On the other hand, the focus under governance is external – it involves accountability of promoters and directors to the outside world, namely, the stakeholders. Though the concepts are distinctive, there is a common thread, which establishes irrefutable inter-relation between the two –

"Better governance leads to better management".

2.2 Who are Stakeholders?

The focus under Corporate Governance is shifted from 'shareholders' to 'stakeholders'. Nobel Prize winner in Economics, Milton Friedman[x] linked Corporate Governance to the conduct of business in accordance with the shareholders' desires, which primarily meant to create wealth for shareholders/owners but at the same time conforming to the laws, rules, regulations and customs established by the society. The Corporate Governance is no longer restricted to creation of wealth for the shareholders. The concept now encompasses interest of stakeholders. But who really are the stakeholders?

The stakeholders include, besides the shareholders, other participants in the corporation such as the Board of Directors, managers, employees, workers, customers, vendors, lenders, and community goals can't be overlooked under the Corporate Governance.

2.3 Corporate Governance: Definitions

"Corporate Governance is the system by which companies are directed and controlled"

Sir Adrian Cadbury

Report of the Committee on the Financial Aspects of Corporate Governance (London: Gee and Co. Ltd., 1992), p. 14.[xi]

"Corporate Governance refers to that blend of law, regulation and appropriate voluntary private sector practices which enables the corporation to attract financial and human capital, perform efficiently and thereby perpetuate itself by generating long term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole"

Ira M. Millstein, 2003

(Adapted from Developing Corporate Governance Codes of Best Practices, Volume I, Global Corporate Governance Toolkit 2)[xii]

Corporate governance is a wide subject and like any other field, definition and effective practices of good corporate governance is largely affected by the size of the economy, differences in the legal, regulatory, institutional, financial and political framework, status of the capital market, and stakeholder's perception etc. If we analyze the words, "Governance', derived from the word 'Gubernare', means to rule or steer. Though originally meant to be a normative framework for exercise of power and acceptance of accountability thereof in the running of kingdoms, regions and towns over the years, it has found significant relevance in the corporate world. However, irrespective of the differences, the importance and the inherent meaning remains same across the world.

Organization for Economic Cooperation and Development (OECD's) definition and principles on corporate governance has been accepted by most of the countries in the world including the multilateral organizations like the World Bank Group, the United nations, the Basel committee for banking Supervision, the International Organization of Securities Commission (IOSCO), the Asian Development Bank, the Islamic Financial Services. Like many other international researches, this study is also focused on OECD's definition of CG;

"Corporate governance is defined as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance",

(OECD 2004)[xiii]

A balanced board with proper educations, skills and competency, experiences, independent judgement and effective oversight Strong commitment from the board and the senior management, effective control environment and process, high level of transparency and disclosure of financial and non-financial information, well defined shareholders rights including the mechanism for the protection of shareholders rights, effective monitoring of the client's corporate governance practices and long term commitment to good corporate governance practice rather than a single action or "box-ticking" exercises are some of the essential criteria against which we can judge the level of commitment to ensure good corporate governance in any of the company in the world.

Above discussed definitions are very useful to understand the meaning of corporate governance and after analysis that we can highlights the essential criterion for good corporate governance, which are essential for any organization. Table 3 explains the elements of good corporate governance.

TABLE 1.3: Elements of Good Corporate Governance

Good Board Practices	**Control Environment**
Clearly defined roles and authorities Duties and responsibilities of directors understood Board is well structured Appropriate composition and mix of skills Appropriate board procedures Director remuneration in line with best practice Board self – evaluation and training conducted	Independent audit committee established Risk management framework present Internal control procedures Internal audit function Independent external auditor conducts audits Management information system established Compliance function established
Transparent Disclosures	**Well defined shareholder rights**
Financial information disclosed Non financial information disclosed Financials prepared according to IFRS High quality annual report published Web based disclosures	Minority shareholders rights are formalized Well organized general assembly conducted Policy on related party transactions Policy on extra ordinary transactions Clearly defined and explicit dividend policy
Board Commitment	
The board discusses corporate governance issues and has created corporate governance committee The company has a corporate governance champion A corporate governance improvement plans has been created Appropriate resources are committed Policies and procedures have been formalized and distributed to relevant staff A corporate governance code has been developed The company is publicly recognize as a corporate governance leader	

Source: Introduction to Corporate Governance, Corporate Governance Board Leadership Training Resources Kit (2008), Global Corporate Governance Forum (GCGF) and International Finance Corporation (IFC), p. 16[xiv]

2.4 Importance of Corporate Governance

"Global Institutional investors are prepared to pay a premium of up to 40 percent for shares in companies with superior corporate governance practices."

Mc Kinsey, Global Investor Opinion Survey,
New York: Mc Kinsey, 2002[xv]

"If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises within that country – regardless of how steadfast a particular company's practice may be – suffer the consequences. Markets must now honor what they perhaps, too often, have failed to recognize. Markets exist by grace of investors. And it is today's more empowered investors that will determine which companies and which markets will stand the test of time and endure the weight of greater competition. It serves us well to remember that no market has a divine right to investor's capital."

Arthur Levitt, Jr.,

Speech by SEC Chairman: Remarks before the Conference of the "Rise and Effectiveness of New Corporate Governance Standards," Federal Reserve Bank of New York. (December 12, 2000). [xvi]

Various research findings recommended that companies with good governance practices perform better in commercial terms across the world. Adopting corporate governances best practices improve access to external financing, lower the cost of capital, improve operational performance, increase firm valuation, improve share performance, and reduce the risk of corporate crises and scandals1. Good corporate governance will ensure the interest of every stakeholder including the investors by offering premium price, companies with higher access to finance and reduction of risks resulting improved profitability, the public sector through the development of stronger capital market, increased investment, and high economic growth, and a business relationship among the stakeholders which is based on the pillars of good corporate governance i.e. transparency, accountability, fairness and responsibility.

2.5 Corporate Governance in India: Historical Background:

The historical development of Indian corporate laws has been marked by many interesting contrasts. At independence, India inherited one of the world's poorest economies but one which had a factory sector accounting for a tenth of the national product. The country also inherited four functioning stock markets (predating the Tokyo Stock Exchange) with clearly defined rules governing listing, trading and settlements, a well-developed equity culture (if only among the urban rich), and a banking system replete with well-developed lending norms and recovery procedures.[xvii] In terms of corporate laws and financial system, therefore, India emerged far better endowed than most other colonies. The 1956 Companies Act built on this foundation, as did other laws governing the functioning of joint-stock companies and protecting the investors' rights. Early corporate developments in India were marked by the managing agency system. This contributed to the birth of dispersed equity ownership but also gave rise to the practice of management enjoying control rights disproportionately greater than their stock ownership. The turn towards socialism in the decades after independence, marked by the 1951 Industries

(Development and Regulation) Act and the 1956 Industrial Policy Resolution, put in place a regime and culture of licensing, protection, and widespread red-tape that bred corruption and stilted the growth of the corporate sector. The situation worsened in subsequent decades and corruption, nepotism, and inefficiency became the hallmarks of the Indian corporate sector. Exorbitant tax rates encouraged creative accounting practices and gave firms incentives to develop complicated emolument structures.

In the absence of a stock market capable of raising equity capital efficiently, the three all-India development finance institutions (the Industrial Finance Corporation of India, the Industrial Development Bank of India and the Industrial Credit and Investment Corporation of India), became the main providers of long-term credit to companies together with the state financial corporations. Along with the government-owned mutual fund, the Unit Trust of India, these institutions also held (and still hold) large blocks of shares in the companies to which they lend and invariably have representations on their boards - though they traditionally play very passive roles in the boardroom.

The corporate bankruptcy and reorganization system has also faced serious problems. India's system is driven by the 1985 Sick Industrial Companies Act (SICA), which considers a company "sick" only after its entire net worth has been eroded and it has been referred to the Board for Industrial and Financial Reconstruction (BIFR). As soon as a company is registered with the BIFR, it wins immediate protection from the creditors' claims for at least four years. Between 1987 and 1992, the BIFR took well over two years on average to reach a decision, after which the delay to resolution roughly doubled. Very few companies emerge successfully from the BIFR and even for those that need to be liquidated the legal process takes over 10 years on average, by which time the assets of the company are usually almost worthless. Protection of creditors' rights has therefore existed only on paper in India, and its bankruptcy process has featured among the worst in World Bank surveys on business climate. This may well explain why Indian banks under-lend and invest primarily in government securities. Though financial disclosure norms in India have traditionally been superior to most Asian countries, noncompliance with disclosure norms is rampant and even the failure of auditors' reports to conform to the law attracts nominal fines and little punitive action. The Institute of Chartered Accountants in India almost never takes action against erring auditors. While the Companies Act provides clear instructions for maintaining and updating share registers, in reality minority shareholders have often suffered from irregularities in share transfers and registrations. Sometimes non-voting preferential shares have been used by promoters to channel funds and expropriate minority shareholders. The rights of minority shareholders have also been compromised by management's private deals in the relatively infrequent event of corporate takeovers. Boards of directors have been largely ineffective in India in their monitoring role, and their independence is more often than not highly questionable.

For most of the post-Independence era the Indian equity markets were not liquid or sophisticated enough to exert effective control over the companies. Listing requirements of exchanges enforced some transparency, but non-compliance was neither rare nor punished. All in all, therefore, minority shareholders and creditors in India remained effectively unprotected despite the laws on the books.

2.6 Framework of Corporate Governance in India:

"The corporate governance framework should protect and facilitate the exercise of shareholders' rights."

- *OECD Principles of Corporate Governance, 2004.*[xviii]

The years since liberalization began in 1991 have witnessed wide-ranging changes in both laws and regulations, driving corporate governance as well as the general consciousness about it. Perhaps the single most important development in the field of corporate governance and investor protection in India has been the establishment of the Securities and Exchange Board of India in 1992 and its gradual empowerment since then. Established primarily to regulate and monitor stock trading, it has played a crucial role in establishing the basic minimum ground rules of corporate conduct in the country. Concerns about corporate governance in India were, however, largely triggered by a spate of crises in the early 1990's—particularly the Harshad Mehta stock market scam of 1992--followed by incidents of companies allotting preferential shares to their promoters at deeply discounted prices, as well as those of companies simply disappearing with investors' money[xix].

These concerns about corporate governance stemming from the corporate scandals, coupled with a perceived need to opening up to the forces of competition and globalization, gave rise to several investigations into ways to fix the corporate governance situation in India. One of the first such endeavours was the Confederation of Indian Industry Code for Desirable Corporate Governance, developed by a committee chaired by Rahul Bajaj. The committee was formed in 1996 and submitted its code in April 1998. Later the SEBI constituted two committees to look into the issue of corporate governance--the first chaired by Kumar Mangalam Birla, which submitted its report in early 2000, and the second by Narayana Murthy, which submitted its report three years later. These two committees have been instrumental in bringing about far reaching changes in corporate governance in India through the formulation of Clause 49 of Listing Agreements (described below). Concurrent with these initiatives by the SEBI, the Department of Company Affairs, the Ministry of Finance of the Government of India also began contemplating improvements in corporate governance.

These efforts include the establishment of a study group to operationalize the Birla Committee recommendations in 2000, the Naresh Chandra Committee on Corporate Audit and Governance in 2002, and the Expert Committee on Corporate Law (the J.J. Irani Committee) in late 2004. All of these efforts were aimed at reforming the existing Companies Act of 1956 that still forms the backbone of corporate law in India.

(A) Organizational Framework: The organizational framework for corporate governance initiatives in India consists of the Ministry of Corporate Affairs (MCA),

the Confederation of Indian Industry (CII) and the Securities and Exchange Board of India (SEBI).

In 1998, the Confederation of Indian Industry (CII), "India's premier business association," unveiled India's first code of corporate governance[xx]. However, since the Code's adoption was voluntary, few firms embraced it. Soon after, SEBI appointed the Kumar Mangalam Birla Committee to fashion a code of corporate governance. In 2000, SEBI accepted the recommendations of the Kumar Mangalam Birla Committee and introduced Clause 49 into the Listing Agreement of Stock Exchanges. Clause 49 outlines requirements vis-a-vis corporate governance in exchange-traded companies.
In 2003, SEBI instituted the N.R. Narayan Murthy Committee to scrutinize India's corporate-governance framework further and to make additional recommendations to enhance its effectiveness. SEBI has since incorporated the recommendations of the N.R. Narayan Murthy Committee, and the latest revisions to Clause 49 became law on January 1, 2006 (SEBI, vide circular SEBI/CFD/DIL/CG/1/2006/13/1 dated 13th January, 2006).

(B) Clause 49 of the Listing Agreements: The SEBI implemented the recommendations of the Birla Committee through the enactment of Clause 49 of the Listing Agreements. Clause 49 may well be viewed as a milestone in the evolution of corporate governance practices in India. The terms were applied to companies in the BSE 200 and S&P C&X Nifty indices, and all newly listed companies, on March 31, 2001. These rules were applied to companies with a paid up capital of Rs. 10 crore or with a net worth of Rs. 25 crore at any time in the past five years on March 31, 2002, and to other listed companies with a paid up capital of over Rs. 3 crore on March 31, 2003. The Narayana Murthy Committee worked on further refining the rules, and Clause 49 was amended in 2004. The main provisions of Clause 49 as inserted vide SEBI F. No. SMDRP/Policy Cir 10/2000 dated 21.02.2000 in the Listing Agreement of Stock Exchange are:

I.	Board of Directors;	II.	Audit Committee;
III.	Remuneration of Directors;	IV.	Board Procedure;
V.	Management;	VI.	Shareholders;
VII.	Report on Corporate Governance;	VIII.	Compliance Certification

The composition and proper functioning of the board of directors emerges as the key area of focus for Clause 49. It stipulates that non-executive members should comprise at least half of a board of directors. It defines an “independent” director and requires that independent directors comprise at least half of a board of directors if the chairperson is an executive director and at least a third if the chairperson is a non-executive director. It also lays down rules regarding compensation of board members, sets caps on committee memberships and chairmanships, lays down the minimum number and frequency of board meetings, and mandates certain disclosures for board members.

Clause 49 pays special attention to the composition and functioning of the audit committee, requiring at least three members on it, with an independent chair and with two-thirds made up of independent directors--and having at least one “financially literate” person serving. The Clause spells out the role and powers of the audit committee and stipulates minimum number and frequency of and the quorum at the committee meetings. With regard to “material” non-listed subsidiary companies (those with turnover/net worth exceeding 20% of a holding company’s turnover/net worth), Clause 49 stipulates that at least one independent director of the holding company must serve on the board of the subsidiary. The audit committee of the holding company should review the subsidiary’s financial statements, particularly its investment plans. The minutes of the subsidiary’s board meetings should be presented at the board meeting of the holding company, and the board members of the latter should be made aware of all “significant” (likely to exceed in value 10% of total revenues/expenses/assets/liabilities of the subsidiary) transactions entered into by the subsidiary.

The areas where Clause 49 stipulates specific corporate disclosures are:

- Related party transactions;
- Accounting treatment;
- Risk management procedures;
- Proceeds from various kinds of share issues;
- Remuneration of directors;
- A Management Discussion and Analysis section in the annual report discussing general business conditions and outlook; and
- Background and committee memberships of new directors as well as presentations to analysts.

In addition, a board committee with a non-executive chair should address shareholder/investor grievances. Finally, the process of share transfer, a long-standing problem in India, should be expedited by delegating authority to an officer or committee or to the registrar and share transfer agents. The CEO and CFO or their equivalents need to sign off on the company’s financial statements and disclosures and accept responsibility for establishing and maintaining effective internal control systems. The company is also required to provide a separate section of corporate governance in its annual report, with a detailed compliance report on corporate governance. It should also submit a quarterly compliance report to the stock exchange where it is listed. Finally, it needs to get its compliance with the mandatory specifications of Clause 49 certified by auditors or by practicing company secretaries. In addition to these mandatory requirements, Clause 49 also mentions non-mandatory requirements concerning the facilities for a non-executive chairman, the remuneration committee, half-yearly reporting of financial performance to shareholders, moving towards unqualified financial statements, training and performance evaluation of board members, and perhaps most notably a clear “whistle blower” policy.

By and large, the provisions of Clause 49 closely mirror those of the Sarbanes-Oxley measures in the United States. In some areas, like certification compliance, the Indian requirements are even stricter. There are, however, areas of uniqueness as well. The distinction drawn between boards headed by executive and non-executive chairmen and the lower required share of independent directors is special to India—and is also somewhat intriguing, given the prevalence of family-run business groups. The market reaction to the corporate governance improvements sought by Clause 49 seems to have been quite positive, somewhat in contrast to the mixed response to Sarbanes-Oxley's adoption.

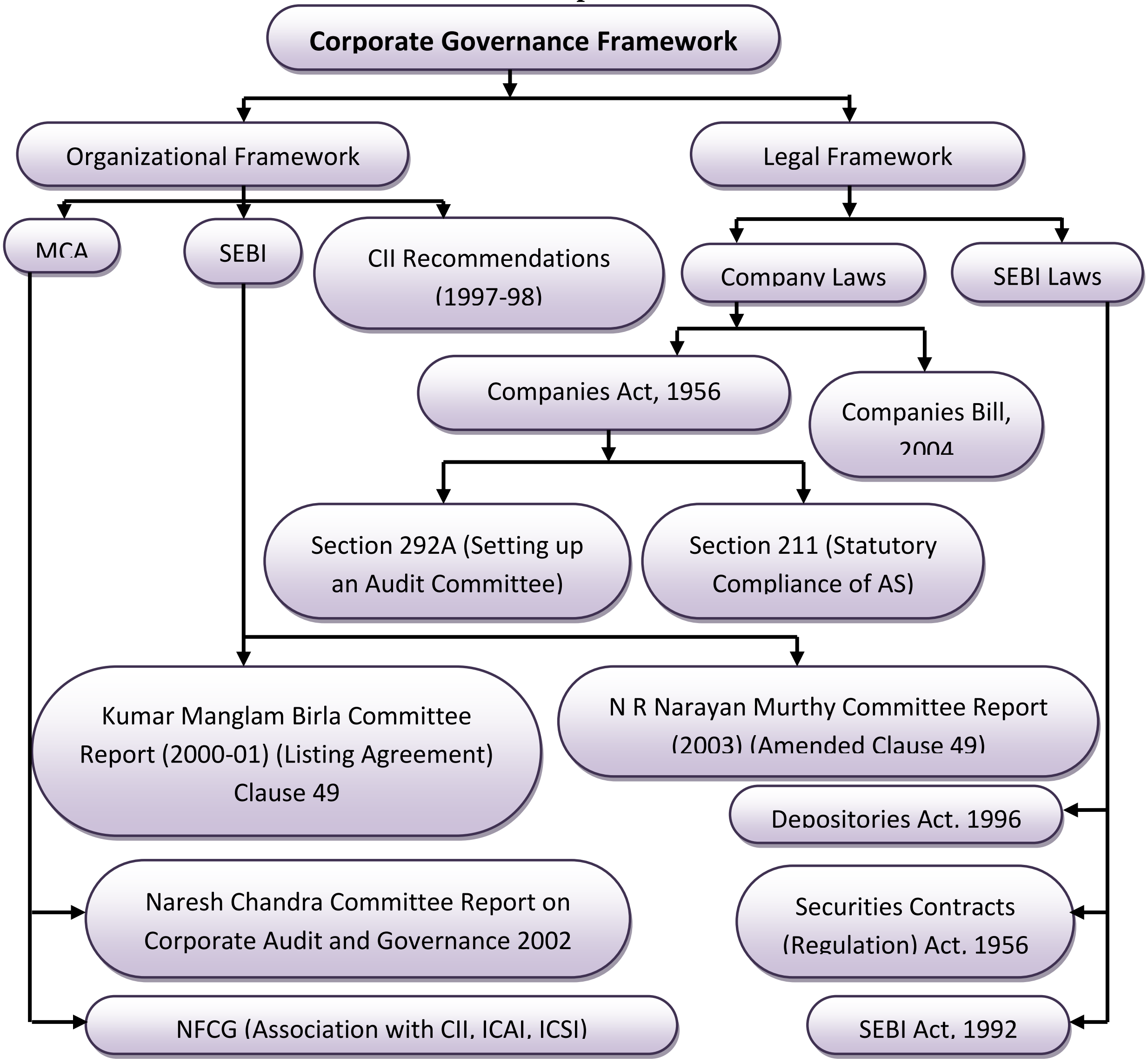
Tarun Khanna and Yishay Yafeh use an event-study approach to measure the stock price impact of the adoption of Clause 49 by Indian firms[xxi]. Focusing on the May 7, 1999 announcement by SEBI about the formation of the Kumar Mangalam Birla committee, when a earlier application to large companies was expected, they report that large firms that adopted these measures first witnessed a 4% (7%) positive price-jump in a two day (five-day) event-window beginning with the announcement day compared to smaller firms that were required to implement the reforms at the same time.

The Ministry of Corporate Affairs (MCA) had appointed a Naresh Chandra Committee[xxii] on Corporate Audit and Governance in 2002 in order to examine various corporate governance issues. It made recommendations in two key aspects of corporate governance: financial and nonfinancial disclosures: and independent auditing and board oversight of management. The Ministry of Corporate Affairs (MCA) had also set up a National Foundation for Corporate Governance (NFCG)[xxiii] in association with the CII, ICAI and ICSI as a not-for-profit trust to provide a platform to deliberate on issues relating to good corporate governance, to sensitize corporate leaders on the importance of good corporate governance practices as well as to facilitate exchange of experiences and ideas amongst corporate leaders, policy makers, regulators, law enforcing agencies and nongovernment organizations. The foundation has been set up with the mission to:

1. Foster a culture for promoting good governance, voluntary compliance and facilitate effective participation of different stakeholders;
2. Create a framework of best practices, structure, processes and ethics; and
3. Make significant difference to Indian corporate sector by raising the standard of corporate governance in India towards achieving stability and growth.

(C) Legal Framework[xxiv]: An effective legal framework is indispensable for the proper and sustained growth of the company. In rapidly changing national and global business environment, it has become necessary that regulation of corporate entities is in tune with the emerging economic trends, encourage good corporate governance and enable protection of the interests of the investors and other stakeholders. The Legal framework for corporate governance consists of the Company Laws and the SEBI Laws.

FIGURE 1.1: Framework of Corporate Governance in India



Company Laws: The Ministry of Corporate Affairs (MCA) is the main authority for regulating and promoting efficient, transparent and accountable form of corporate governance in the Indian corporate sector. The important legislations governed by MCA for regulating the entire corporate structure and for dealing with various aspects of governance in companies are Companies Act, 1956 and Companies Bill, 2004. These laws have been introduced and amended, from time to time, to bring more transparency and accountability in the provisions of corporate governance. That is, corporate laws have been simplified so that they are amenable to clear interpretation and provide a framework that would facilitate faster economic growth.

The Companies Act, 1956 is the central legislation in India that empowers the Central Government to regulate the formation, financing, functioning and winding up of companies. The Companies Act, 1956 has elaborate provisions relating to the Governance of Companies, which deals with management and administration of companies. It contains special provisions with respect to the accounts and audit, directors' remuneration, other financial and non-financial disclosures, corporate democracy, prevention of mismanagement, etc. The main two Sections of this Act related to the corporate governance are Section 292A and Section 211.

• *Section 292A*[xxv]*:* The concept of Corporate Governance receives statutory recognition, with the insertion of Section 292A in the Companies Act, 1956 with an amendment made to it through the Companies (Amendment) Act 2000. The New Section 292A made it obligatory upon a public company having a paid-up capital of Rs. 5 crores or more to have an audit committee comprising at least three directors as members. Two-thirds of the total number shall be nonexecutive directors.

• *Section 211*[xxvi]*:* As per this Section, every Profit and loss account and Balance sheet of the company shall comply with the Accounting Standards, issued by the Institute of Chartered Accountants of India as may be prescribed by the Central Government in consultation with National Advisory Committee on Accounting Standards, and the Statutory auditors of every company are required to report whether the Accounting Standards have been complied with or not. The Securities Exchange Board of India (SEBI) has added a new clause in the Listing Agreement to provide that listed enterprises shall compulsory comply with all the Accounting Standards issued by ICAI from time to time.

The Companies Bill 2004[xxvii] has been introduced to provide the comprehensive review of the company law. It contained important provisions relating to corporate governance, like, independence of auditors, relationship of auditors with the management of company, independent directors with a view to improve the corporate governance practices in the corporate sector. It is subjected to greater flexibility and self-regulation by companies, better financial and non-financial disclosures, more efficient enforcement of law, etc. This amendment to the Companies Act 1956 mainly focused on reforming the audit process and the board of directors. It mainly aimed at :- (i) laying down the process of appointment and qualification of auditors, (ii) prohibiting non-audit services by the auditors; (iii) prescribing compulsory rotation, at least of the Audit Partner; (iv) requiring certification of annual audited accounts by both CEO and CFO; etc. For reforming the boards, the bill included that remuneration of non-executive directors can be fixed only by shareholders and must be disclosed. A limit on the amount which can be paid would also be laid down. It is also envisaged that the directors should be imparted suitable training. However, among others, an independent director should not have substantial pecuniary interest in the company's shares.

SEBI Laws[xxviii]*:* Improved corporate governance is the key objective of the regulatory framework in the securities market. Accordingly, Securities and Exchange Board of India (SEBI) has made several efforts with a view to evaluate the adequacy of existing corporate governance practices in the country and further improve these practices. It is implementing and maintaining the standards of corporate governance through the use of its legal and regulatory framework, namely, The Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India Act, 1992 and the Depositories Act, 1996.

2.7 Recent Findings about Corporate Governance in India

Of late, a burgeoning empirical literature has begun to document important features of corporate governance in India. Researcher has summarized some of the major findings in this section, beginning with research examining corporate board composition.

Jayati Sarkar and Subrata Sarkar show that corporate boards of large companies in India in 2003 were slightly smaller than those in the United States (in 1991), with 9.46 members on average in India compared to 11.45 in America[xxix]. While the percentage of inside directors was roughly comparable (25.38% compared to 26% in the U.S.), Indian boards had relatively fewer independent directors, (just over 54% compared to 60% in the U.S.) and relatively more affiliated outside directors (over 20% versus 14% in the U.S.). 41% of Indian companies had a promoter on the board, and in over 30% of cases a promoter served as an Executive Director. There is evidence that larger boards lead to poorer performance (market-based as well as in accounting terms), both in India and in the United States[xxx].

The median director in large Indian companies held 4.28 directorships in 2003, and this number is considerably (and statistically significantly) higher for directors in group-affiliated companies (4.85 versus 3.09 for non-affiliated companies)[xxxi]. The figures were similar for inside directors, being 4.34, 4.95 and 3.06 for large companies, group affiliates, and non-affiliated companies, respectively. As for independent directors, however, the median number of positions held was 4.59, with no major differences between group and stand-alone companies. Interestingly, independent directors with multiple directorships are associated with higher firm value in India while busier inside directors are correlated negatively with firm performance. Busier independent directors are also more conscientious in terms of attending board meetings than their counterparts with fewer positions. As for inside directors, it seems that the pressure of serving on multiple boards (due largely to the prevalence of family owned business groups) does take a toll on the directors' performance.

However, busy independent directors also appear to be correlated with a greater degree of earnings management as measured by discretionary accruals[xxxii]. Multiple positions and non-attendance of board meetings by independent directors seem to be associated with higher discretionary accruals in firms. After controlling for these characteristics of independent directors, board independence (measured by the proportion of independent directors) does not seem to affect the degree of earnings management. However, CEO-duality, where the top executive also chairs the board, and the presence of controlling shareholders as inside directors are related, perhaps unsurprisingly, to greater earnings management.

Shareholding patterns in India reveal a marked level of concentration in the hands of the promoters. In 2002-03, for instance, Jayati Sarkar and Subrata Sankar find that promoters held 47.74% of the shares in a sample of almost 2500 listed manufacturing companies, and held 50.78% of the shares of group companies and 45.94% of stand-alone firms[xxxiii]. In comparison, the Indian public's share amounted to 34.60%, 28% and 38.51%, respectively. As for the impact of concentrated shareholding on firm performance, an earlier study by these same authors finds that in the mid-90's (1995-96) holdings above 25% by directors and their relatives was associated with higher valuation of companies while there was no clear effect below that threshold[xxxiv]. More recently, based on 2001 data that distinguishes between "controlling" insiders and non-controlling groups, Ekta Selarka reports a U-shaped relationship between insider ownership (with insiders being defined as promoters and "persons acting in concert with promoters") and firm value, with the point of inflection lying at a much higher level, between 45% and 63%[xxxv]

Institutional investors--comprising government sponsored mutual funds and insurance companies, banks and development financial institutions (DFIs) that are also long-term creditors, and foreign institutional investors--hold over 22% shares of the average large company in India, of which the share of mutual funds, banks and DFIs, insurance companies, and foreign institutional investors are about 5%, 1.5%, 3% and 11%, respectively. Analyzing cross-sectional data from the mid-1990's, Jayati Sarkar and Subrata Sarkar find that company value actually declines with a rise in the holding of mutual funds and insurance companies in the range 0-25% holding, after which there is no clear effect[xxxvi]. On the other hand, for DFIs' holdings, there is no clear effect on valuation below 25%, but a significant positive effect above 25%, suggesting better monitoring when stakes are higher.

Executive compensation in India, which was freed from the strict regulation by the Companies Act in 1994, is another area of corporate governance that has received attention among researchers. Managerial compensation in India often has two components--salary and performance-based commission—as well as retirement and other benefits and perquisites. Based on an analysis of unbalanced panel data for roughly 300 firms each year, Sonja Fagernäs reports that the average total compensation (salary plus commission) of Indian CEOs has risen almost three-fold between 1998 and 2004 (from Rs. 2.1 million (approximately USD 48,500) to Rs. 6.4 million (approximately USD 143,000) in real terms[xxxvii].

During this period, the proportion of profit-based commission has risen steadily, from 13.4% to 25.6%, and the proportion of CEOs with commission as part of their pay package has risen from 0.34 to 0.51. CEO pay has thus clearly become more performance based over the past decade. There is also some evidence that this increasing performance-pay linkage is associated with the introduction of the corporate governance code or Clause 49. Meanwhile, executive compensation as a fraction of profits has also almost doubled from 0.55% to 1.06%. Fagernäs also finds that CEOs related to the founding family or directors are paid more than other CEOs. In a firm fixed effects model, she finds being related to the founding family can raise CEO pay by as much as 30% while being related to a director can cause an increase of about 10%. There is some evidence that the presence of directors from lending institutions lowers pay while the share of non-executive directors on the board connects pay more closely to performance.

A recent study finds that, during 1997-2002, the average (of a sample of 462 manufacturing firms) *board* compensation in India has been around Rs. 5.3 million (approximately USD 120,000), with wide variation across firm size[xxxviii]. The average board compensation is Rs. 7.6 million (USD 171,000) for large firms and Rs. 2.5 million (USD 56,000) for small firms. The board compensation also appears to be higher, on average, at Rs. 6.9 million (USD 155,500) if the CEO is related to the founding family. Both board and CEO compensation depend on current performance, and CEO pay depends on past-year performance as well. Diversified companies also pay their boards more.

Given that almost two-thirds of the top 500 Indian companies are group-affiliated, issues relating to corporate governance in business groups are naturally very important. Tunneling, or "the transfer of assets and profits out of firms for the benefit of those who control them" is a major concern in business groups with pyramidal ownership structure and inter-firm cash flows[xxxix]. Marianne Bertrand and her co-authors estimate that an industry shock leads to a 30% lower earnings increase for business group firms compared to stand-alone firms in the same industry[xl]. They find that firms farther down the pyramidal structure are less affected by industry-specific shocks than those nearer the top, suggesting that positive shocks in the former are siphoned off to the latter, benefiting the controlling shareholders but hurting the minority shareholders. However, Bernard Black and Vikramaditya Khanna question how this logic would make them less sensitive to negative shocks[xli]. There is also some evidence that firms associated with business groups have superior performance than stand-alone firms[xlii].

More recently Raja Kali and Jayati Sarkar argue that diversified business groups help increase the opacity of within-group fund flows driving a wider wedge between control and cash flow rights. A greater degree of diversification also aids tunnelling[xliii]. Using data for Indian firms in 385 business groups in 2002- 03 and 384 groups in 2003-04, Kali and Sarkar find that firms with greater ownership opacity and a lower wedge between cash flow rights and control than those in a group's core activity are likely to be located farther away from the core activity. This incentive for tunnelling explains, according to them, the persistence of value destroying groups in India and occasional heavy investment by Indian groups in businesses with low contribution to group profitability.

Using a sample of over 600 of the 1000 largest (by revenues) Indian firms in 2004, Jayashree Saha finds that, after controlling for other corporate governance characteristics, firm performance is negatively associated with the extent of related party transactions for group firms but positively so for stand-alone companies. This further strengthens the circumstantial evidence of tunneling and its adverse effects[xliv].The same study also reveals that, using a sample of over 5000 firms for the period 2003-2005, most related party transactions in India occur between the firm and "parties with control," as opposed to management personnel as in the United States. Also, group companies consistently report higher levels of related party transactions than stand-alone companies.

Transparency and corporate governance levels are very closely related. Cross-country studies have repeatedly put India among the worst nations in terms of earnings opacity and management[xlv]. Indian accounting standards provide considerable flexibility to firms in their financial reporting and differ from the International Accounting Standards (IAS) in several ways that often make interpreting Indian financial statements a challenging task. These deviations, however, need to be viewed in the right perspective. India still falls short of the median number of deviations from IAS in the 49 country sample of Kee-Hong Bae and co-authors[xlvi].

The nature of corporate governance can affect the capital structure of a company. In the presence of well functioning financial institutions, debt can be a disciplining mechanism in the hands of shareholders or an expropriating mechanism in the hands of controlling insiders. Studying the relationship between leverage and Tobin's Q in 1996, 2000, and 2003, Jayati Sarkar and Subrata Sarkar conclude that the disciplinary effect has been more marked in recent years as institutions have adopted greater market orientations[xlvii]. They also find limited evidence of the use of debt as an expropriating mechanism in group companies.

The market for corporate control was relatively limited in India until the mid-1990's, when the average number of mergers per year leapt from 30 between 1973-74 and 1987-88, and 63 between 1987- 88 and 1994-95, to 171 between 1994-95 and 2002-03[xlviii]. Merger activity appears to occur in waves and is split roughly evenly between inter-industry and intra-industry mergers. The share of group-affiliated mergers has increased significantly in the post 1994-95 period.

With regard to public sector governance, Nandini Gupta finds that even when control stays in government hands, partial privatization has a positive impact on profitability, productivity, and investment of the PSEs concerned[xlix]. She argues that the monitoring role of the markets has been responsible for this. Another study argues that the effect of partial privatization may have been confounded with the application of MoUs to these cases before the partial privatizations, finding that the application of MoUs or performance contracts has had a positive impact on profitability as well as operational performance of PSEs[l].

If we discuss the progress of corporate governance practices in Asia, there are measurably changes nowadays we can find. Like in many of the Asian countries, corporate governance reform in South Asian nations is also seen in larger extent than before. For example, the rate of development of CG code or guideline, implementation of the capital adequacy framework (Basel II), compliance with International Financial Reporting Standards (IFRS), level of disclosure of financial and non-financial information, regulatory development of protection of the shareholders rights including the minority shareholders has been remarkable. Table 1.4 highlights the status of CG in South Asia. Table shows the improvements [second column] in corporate governance practices in different areas [first column] especially in Financial Reporting, Board Compositions and Functions, Shareholder Rights, Accounting/ Auditing Practices and Regulatory Enforcement. So from these evidence and findings, we can say that in India, corporate governance practices are becoming more sound than ever before and as per the current demand and current scenario, if the Indian corporate have to survive, they have to improve their corporate governance practices and prove themselves and to improve the trust in stakeholders.

TABLE 1.4: Progress in Corporate Governance in South Asia

Area	Improvements
Financial Reporting	More detailed disclosure rules; faster reporting; quarterly reporting; disclosure of “material” events, director pay, and director dealings.
Board Composition and Function	Introduction of independent directors, board committees, director training; higher expectations placed on directors; higher fees paid to directors.
Shareholder Rights	Formal rights strengthened; retail activist group formed; institutional investors started voting their shares and taking engagement more seriously.
Accounting/ Auditing	Local accounting standards brought more into line with international standards (ditto accounting standards); independent regulation of audit profession in some markets.
Regulatory Enforcement	Financial regulators still under equipped, but there has been more focus on enforcing listing rules and key securities laws (e.g. insider training)

Source: Jamie Allen, Secretary General, Asian Corporate Governance Association (ACGA), “Assessing Corporate Governance in Asia, 1999-2009: What’s in Store for the Next Decade?” Presentation at the Chubb APEC Seminar, Singapore, October 7, 2009[li].

3. Indian Banking System: An Overview

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centres. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the "exported growth" of other Asian economies, with emphasis on self-reliance through import substitution.

3.1 A Brief History of Indian Banking Sector:

The word 'Bank' has said to be derived from the French word "Bancus" or "Banque", i.e. bench. It is believed that the early bankers, the Jews of Lombardy, transacted their business on benches in the marketplace. Other believes it is derived from the German word "Back" meaning a joint stock fund. The modern banking system began with the opening of Bank of England in 1694. Bank of Hindustan was the first bank to be established in India, in 1770. The earliest institutions that undertook banking business under the British Regime were agency houses which carried on banking business in addition to their trading activities. Most of these agency houses were closed during 1929-32. Three Presidency banks known as Bank of Bengal, Bank of Bombay and Bank of Madras were open in 1809, 1840 and 1843 respectively at Calcutta, Bombay and Madras. There were later merged into the Imperial Bank of India in 1919 following a bank crisis.

The first bank of limited liability managed by Indians was the Oudh Commercial Bank started in 1881. Earlier between 1865 and 1870, only one bank, the Allahbad Bank Ltd., was established. Subsequently the Punjab National Bank began in 1894 with its office at Anarkali Market in Lahore (now in Pakistan). The Swadeshi movement, which began in 1906, prompted formation of a number of commercial banks such as the Peoples Bank of India Ltd., the Central Bank of India, the Indian Bank Ltd. and the Bank of Baroda Ltd. A series of banking crises between 1913-1917 witnessed the failure of 588 banks. The banking companies (Inspection Ordinance) came in January, 1946 and the Banking Companies (Restriction of Branches) Act was passed in February, 1946. The Banking Companies Act was passed in February 1946, which was later amended to be known as the Banking Regulation Act, 1949. Meanwhile the RBI Act 1934 was passed and the Reserve Bank of India became the first central bank of the country w.e.f. April 1, 1935, it took over the central banking activities from the Imperial Bank of India. The RBI was nationalized on January 1, 1949. The Imperial Bank of India was partially nationalized to form a State Bank of

India in 1955. In 1959, subsidiaries of SBI namely, State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Indore, State Bank of Mysore, State Bank of Patiala, State Bank of Saurashtra and State Bank of Travancore were established.

The nationalization of 14 privately owned banks in India took place on 19th of July 1969 by Mrs. Indira Gandhi, the then Prime Minister, with another installment of nationalization of 6 banks on 15th April, 1980. The major objective of nationalization was to ensure mass banking as against class banking with banking infrastructure aimed at hilly tracts and terrains of the country. Prior to 1969, State Bank of India (SBI) was the only public sector bank in India. SBI was nationalized in 1955 under the SBI Act of 1955. In 1993, one of the nationalized bank namely, New Bank of India, was merged with another nationalized bank i.e. Punjab National Bank.

3.2 Indian Banking Structure:

Various features of Indian Banking Sector are reflected through structure, size and diversity of the country's banking and financial sector. The banking system has had to serve the goals of economic policies enunciated in successive five year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In order for the banking industry to serve as an instrument of state policy, it was subjected to various nationalization schemes in different phases (1955, 1969, and 1980).

FIGURE: 1.2 Indian Financial Structures

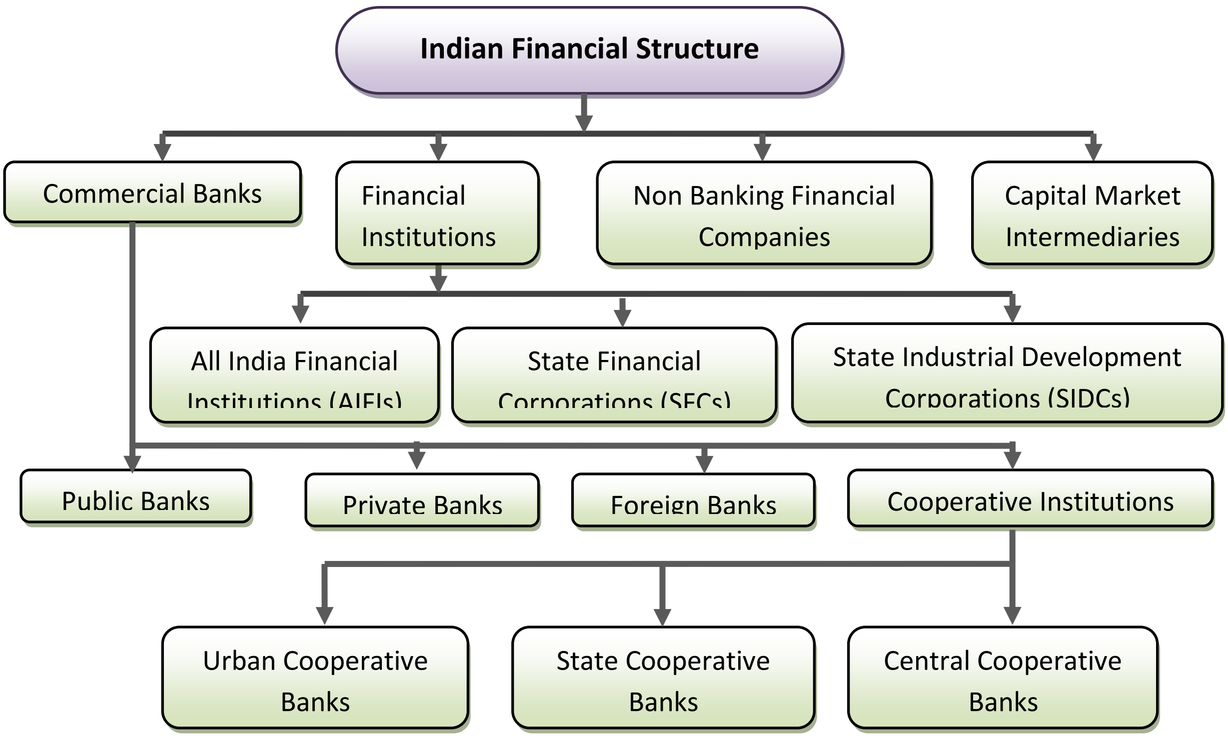
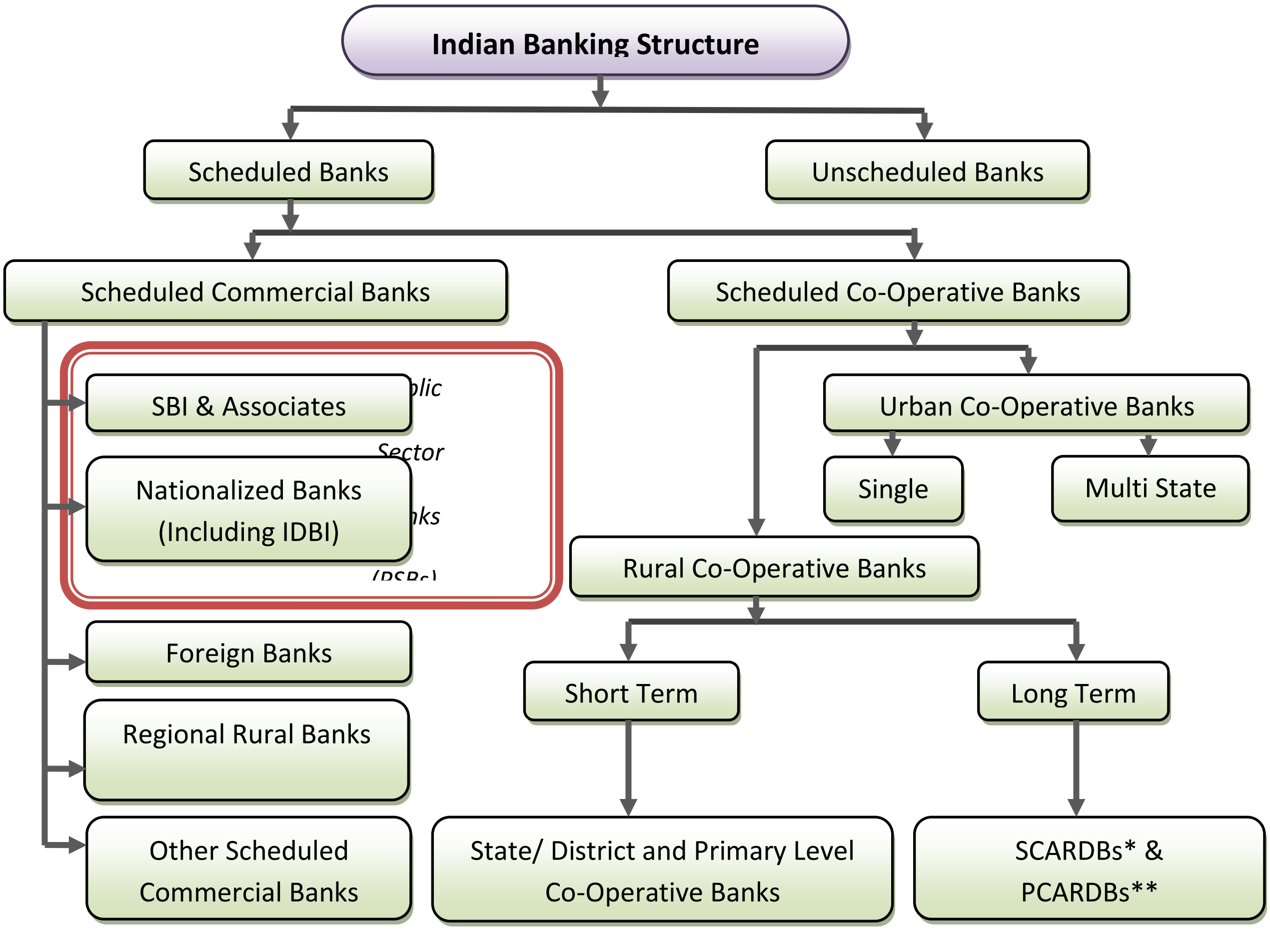


FIGURE 1.3: Indian Banking Structure



** State Co-Operative Agriculture & Rural Development Banks*
***Primary Co-Operative Agriculture & Rural Development Banks*

As a result, banking remained internationally isolated (few Indian banks had presence abroad in international financial centers) because of preoccupations with domestic priorities, especially massive branch expansion and attracting more people to the system. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries, exports, and banking activities in the developed commercial centers (i.e., metro, urban, and a limited number of semi-urban centers). On these bases we can explain the Indian financial structure and Indian Banking Structure separately. This is explained in Figures 1.1 and 1.2.

Indian banking structure in mainly divided as Scheduled Banks and Unscheduled Banks. Scheduled Banks expressed as Scheduled Commercial Banks (SCBs) which can be further grouped as State Banks Group and other Nationalized Banks, Foreign Banks, Regional Rural Banks and other Scheduled Commercial Banks. SBI Group consists of the State Bank of India (SBI) and Associate Banks of SBI. The Reserve Bank of India (RBI) owns the majority share of SBI and some Associate Banks of SBI.1 SBI has 13 head offices governed each by a board of directors under the supervision of a central board. The boards of directors and their committees hold monthly meetings while the executive committee of each central board meets every week.

In 1969, the Government arranged the nationalization of 14 scheduled commercial banks in order to expand the branch network, followed by six more in 1980. A merger reduced the number from 20 to 19. Nationalized banks are wholly owned by the Government, although some of them have made public issues. In contrast to the state bank group, nationalized banks are centrally governed, i.e., by their respective head offices. Thus, there is only one board for each nationalized bank and meetings are less frequent (generally, once a month). The state bank group and nationalized banks are together referred to as the public sector banks (PSBs). In 1975, the state bank group and nationalized banks were required to sponsor and set up RRBs in partnership with individual states to provide low-cost financing and credit facilities to the rural masses.

3.3 Reserve Bank of India and Banking and Financial Institutions:

RBI is the banker to banks—whether commercial, cooperative, or rural. The relationship is established once the name of a bank is included in the Second Schedule to the Reserve Bank of India Act, 1934. Such bank, called a scheduled bank, is entitled to facilities of refinance from RBI, subject to fulfilment of the following conditions laid down in Section 42 (6) of the Act, as follows:

• it must have paid-up capital and reserves of an aggregate value of not less than an amount specified from time to time; and

• it must satisfy RBI that its affairs are not being conducted in a manner detrimental to the interests of its depositors.

The classification of commercial banks into scheduled and non scheduled categories that was introduced at the time of establishment of RBI in 1935 has been extended during the last two or three decades to include state cooperative banks, primary urban cooperative banks, and RRBs. RBI is authorized to exclude the name of any bank from the Second Schedule if the bank, having been given suitable opportunity to increase the value of paid-up capital and improve deficiencies, goes into liquidation or ceases to carry on banking activities.

Specialized development financial institutions (DFIs) were established to resolve market failures in developing economies and shortage of long-term investments. The first DFI to be established was the Industrial Finance Corporation of India (IFCI) in 1948, and was followed by SFCs at state level set up under a special statute. In 1955, Industrial Credit and Investment Corporation of India (ICICI) was set up in the private sector with foreign equity participation. This was followed in 1964 by Industrial Development Bank of India (IDBI) set up as a subsidiary of RBI. The same year saw the founding of the first mutual fund in the country, the Unit Trust of India (UTI). A wide variety of financial institutions (FIs) has been established. Examples include the National Bank for Agriculture and Rural Development (NABARD), Export Import Bank of India (Exim Bank), National Housing Bank (NHB), and Small Industries Development Bank of India (SIDBI), which serve as apex banks in their specified areas of responsibility and concern. The three institutions that dominate the term-lending market in providing financial assistance to the corporate sector are IDBI, IFCI, and ICICI. The Government owns insurance companies, including Life Insurance Corporation of India (LIC) and General Insurance Corporation (GIC). Subsidiaries of GIC also provide substantial equity and loan assistance to the industrial sector, while UTI, though a mutual fund, conducts similar operations. RBI also set up in April 1988 the Discount and Finance House of India Ltd. (DFHI) in partnership with SBI and other banks to deal with money market instruments and to provide liquidity to money markets by creating a secondary market for each instrument. Major shares of DFHI are held by SBI.

Liberalization of economic policy since 1991 has highlighted the urgent need to improve infrastructure in order to provide services of international standards. Infrastructure is woefully inadequate for the efficient handling of the foreign trade sector, power generation, communication, etc. For meeting specialized financing needs, the Infrastructure Development Finance Company Ltd. (IDFC) was set up in 1997. To nurture growth of private capital flows, IDFC will seek to unbundle and mitigate the risks that investors face in infrastructure and to create an efficient financial structure at institutional and project levels. IDFC will work on commercial orientation, innovations in financial products, rationalizing the legal and regular framework, creation of a long-term debt market, and best global practices on governance and risk management in infrastructure projects.

3.4 Private Banks in India:

Prior to nationalization, Banks in India with the sole exception of SBI were in private hands with community and trade orientation. Nationalization of 14 banks in the year 1969 and another set of 6 banks in the year 1980 reduced the importance of private sector banks and public sector banks started playing a major role in extending the horizon of banking services to the nook and corner of the country.

With history repeating itself, private sector banking got a fillip with the Government of India relaxing the conditions for opening of private sector banks in the year 1994, as a part of their liberalization program. Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an ‘in principle’ approval from the RBI to set up a bank in the private sector. As on 31st March, 2005, there are 30 private banks operating in the country. Private Banks have been playing a crucial role in enhancing customer oriented products with no choice left with the public sector banks except to innovate and compete in the process. Reserve Bank of India has come out on clear cut terms their guidelines on ownership and governance in private sector banks.

On the issue of aggregate foreign investment in private banks from all sources (FDI, FII, NRI), the guideline stipulate that it cannot exceed 74% of the paid up capital of a bank. If FDI (other than by foreign banks or foreign bank groups) in private banks exceeds 5%, the entity acquiring such stake would have to meet the “fit and proper” criteria indicated in the share transfer guidelines and get the RBI’s acknowledgement for transfer of the shares. The aggregate limit for all FII investments is restricted to 24% of which can be raised to 49% with the approval of the board/ shareholders. The current aggregate limit for all NRI investment is 24%, with the individual NRI limit being five percent, subject to the approval of the board/ shareholders.

3.5 Co-operative Banks in India

The Co-operative banks have a history of almost 100 years. The Co-operative banks are an important constituent of the Indian Financial System, judging by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate. The co-operative movement originated in the West, but the importance that such banks have assumed in India is rarely paralleled anywhere else in the world. Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks.

While the co-operative banks in rural areas mainly finance agricultural based activities including farming, cattle, milk, hatchery, personal finance etc. along with some small scale industries and self-employment driven activities, the co-operative banks in urban areas mainly finance various categories of people for self-employment, industries, small scale units, home finance, consumer finance, personal finance, etc. Some of the co-operative banks are quite forward looking and have developed sufficient core competencies to challenge state and private sector banks.

According to NAFCUB (National Federation of Urban Cooperative Banks & Credit Societies Ltd.) the total deposits & landings of Co-operative Banks is much more than Old Private Sector Banks & also the New Private Sector Banks. This exponential growth of Co-operative Banks is attributed mainly to their much better local reach, personal interaction with customers, and their ability to catch the nerve of the local clientele.

Though registered under the Co-operative Societies Act of the Respective States (where formed originally) the banking related activities of the co-operative banks are also regulated by the Reserve Bank of India. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

3.6 Most Comprehensive Listing of Banks in India

The commercial banking structure in India consists of: Scheduled Commercial Banks and Unscheduled Banks. Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act.

For the purpose of assessment of performance of banks, the Reserve Bank of India categories them as public sector banks, old private sector banks, new private sector banks and foreign banks. IDBI and IDBI Bank Ltd. have been merged to form Industrial Development Bank of India (IDBI) Ltd. IDBI is notified as a scheduled bank by the Reserve Bank of India (RBI) under the Reserve Bank of India Act, 1934. RBI has categorized IDBI under a new sub group "other public sector bank".

TABLE 1.5 Lists of Banks in India

Sr. No.	Bank Name	Sr. No.	Bank Name
Public Sector/ Nationalized Banks			
1	Allahabad Bank	11	Indian Overseas Bank
2	Andhra Bank	12	Oriental Bank of Commerce
3	Bank of Baroda	13	Punjab & Sindh Bank
4	Bank of India	14	Punjab National Bank
5	Bank of Maharashtra	15	Syndicate Bank
6	Canara Bank	16	UCO Bank
7	Central Bank of India	17	Union Bank of India
8	Corporation Bank	18	United Bank of India
9	Dena Bank	19	Vijaya Bank
10	Indian Bank		
SBI Group			
1	State Bank of India	4	State Bank of Mysore
2	State Bank of Bikaner & Jaipur	5	State Bank of Patiala
3	State Bank of Hyderabad	6	State Bank of Travancore
Old Private Sector Banks			
1	Bank of Rajasthan	9	Karur Vysya Bank
2	Catholic Syrian Bank	10	Lakshmi Vilas Bank
3	City Union Bank	11	Nainital Bank
4	Dhanlaxmi Bank	12	Ratnakar Bank
5	Federal Bank	13	Karnataka Bank
6	ING Vysya Bank	14	South Indian Bank
7	Jammu & Kashmir Bank	15	Tamilnad Mercantile Bank
8	SBI Commercial & International Bank		
New Private Sector Banks			
1	Axis Bank (Previously UTI Bank)	5	IndusInd Bank
2	Development Credit Bank	6	Kotak Mahindra Bank
3	HDFC Bank	7	Yes Bank
4	ICICI Bank		
Foreign Banks (As on March 31, 2011)			
1	Abu Dhabi Commercial Bank	17	DBS Bank
2	American Express Banking Corp.	18	Deutsche Bank
3	Antwerp Diamond Bank	19	FirstRand Bank
4	AB Bank	20	Hong Kong & Shanghai Banking

			Corp.
5	Bank International Indonesia	21	JPMorgan Chase Bank
6	Bank of America	22	JSC VTB Bank
7	Bank of Bahrain & Kuwait	23	Krung Thai Bank
8	Bank of Ceylon	24	Mashreq Bank
9	Bank of Nova Scotia	25	MIZUHO Corporate Bank
10	Bank of Tokyo – Mitsubishi UFJ	26	Oman International Bank
11	Barclays Bank	27	Royal Bank Scotland
12	BNP Paribas	28	Shinhan Bank
13	Chinatrust Commercial Bank	29	Standard Chartered Bank
14	Citibank	30	State Bank of Mauritius
15	Commonwealth Bank of Australia	31	UBSAG
16	Credit Agricole	32	United Overseas Bank

3.7 Indian Bank's Operations Abroad:

As on March 31, 2011, fifteen Indian Banks – thirteen from the public sector and three from the private sector had operations overseas spread across 30 countries with a network of 155 branches. The Bank of Baroda has the highest overseas presence, followed by the State Bank of India and Bank of India. Details are given in the following table.

TABLE 1.6 Bank wise offices of Indian SCBs outside India - 2011

Sr. No.	Bank Name	Overseas Branches (Total)	Sr. No.	Bank Name	Overseas Branches (Total)
1	Bank of Baroda	47	9	UCO Bank	04
2	State Bank India	45	10	Axis Bank	03
3	Bank of India	24	11	HDFC Bank	02
4	ICICI Bank	08	12	Allahabad Bank	01
5	Indian Overseas Bank	06	13	IDBI Bank	01
6	Canara Bank	04	14	Syndicate Bank	01
7	Indian Bank	04	15	Union Bank of India	01
8	Punjab National Bank	04	Total Overseas Branches		155

Source: RBI Statistics Hand Book, 2010-11

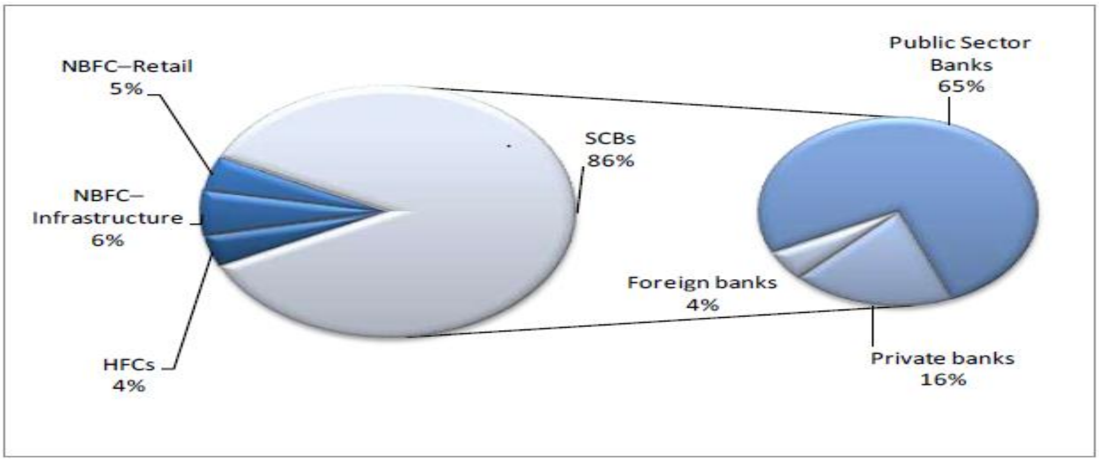
3.8 Current Scenario of Indian Banking Sector:

Good internal capital generation, reasonably active capital markets, and governmental support ensured good capitalisation for most banks during the period under study, with overall capital adequacy touching 14% as on March 31, 2011. At the same time, high levels of public deposit ensured most banks had a comfortable liquidity profile. While banks have benefited from an overall good economic growth over the last decade, implementation of SARFAESI [The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002], setting up of credit information bureaus, internal improvements such as upgrade of technology infrastructure, tightening of the appraisal and monitoring processes, and strengthening of the risk management platform have also contributed to the improvement.

Significantly, the improvement in performance has been achieved despite several hurdles appearing on the way, such as temporary slowdown in economic activity (in the second half of 2008-09), a tightening liquidity situation, increases in wages following revision, and changes in regulations by the RBI, some of which prescribed higher credit provisions or higher capital allocations.

Currently, Indian banks face several challenges, such as increase in interest rates on saving deposits, possible deregulation of interest rates on saving deposits, a tighter monetary policy, a large government deficit, increased stress in some sectors (such as, State utilities, airlines, and microfinance), restructured loan accounts, unamortised pension/gratuity liabilities, increasing infrastructure loans, and implementation of Basel III. The Indian financial sector (including banks, non-banking financial companies, or NBFCs, and housing finance companies, or HFCs) reported a compounded annual growth rate (CAGR) of 19% over the last three years and their credit portfolio stood at close to Rs. 49 trillion (around 62% of 2010-11 GDP) as on March 31, 2011. Banks accounted for nearly 86% of the total credit, NBFCs for around 10%, and HFCs for around 4%. Within banks, public sector banks (PSBs), on the strength of their country-wide presence, continued to be the leader, accounting for around 76% of the total credit portfolio, while within the NBFC sector, large infrastructure financing institutions accounted for more than half the total NBFC credit portfolio; NBFCs that are into retail financing took up the rest.

FIGURE 1.4 Credit Compositions of Financial Sector Entities



Source: ICRA, RBI Research.

While the Indian banking sector features a large number of players competing against each other, the top 10 banks accounted for a significant 57% share of the total credit as on March 31, 2011.

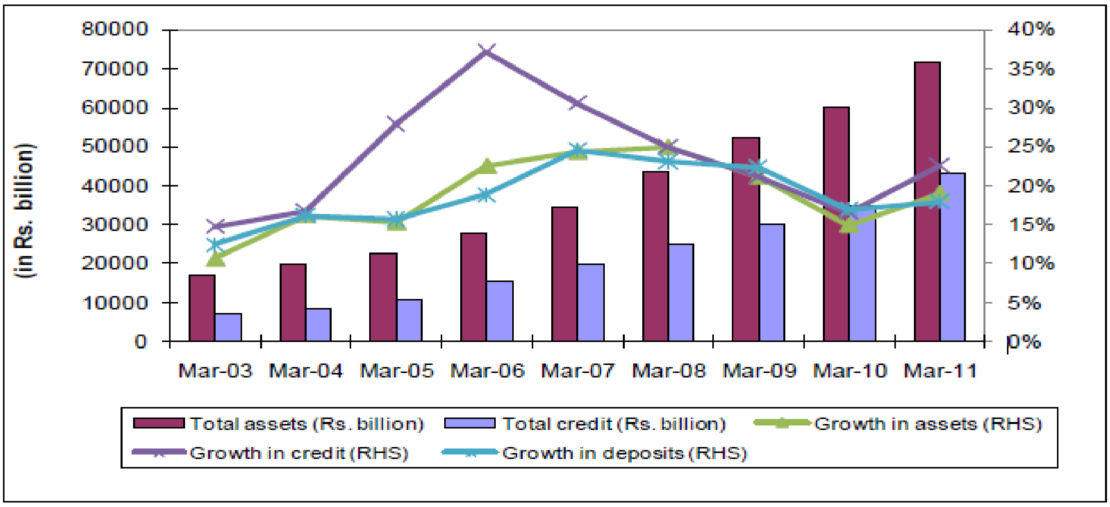
TABLE 1.7 Key Players in Indian Banking Sector

Name of Bank	Credit Portfolio as in March 2011 (Rs. Billion)	Market Share (%)	Net Interest Margins (2010-11)	Tier I Capital % as in March 2011	Return on Net Worth (2010-11)	Gross NPA % as in March 2011
SBI	7,567	18%	2.9%	07.8%	13%	3.3%
PNB	2,421	06%	3.5%	08.4%	24%	1.8%
BOB	2,287	05%	2.8%	10.0%	24%	1.4%
ICICI Bank	2,164	05%	2.3%	13.2%	10%	4.5%
BOI	2,131	05%	2.5%	08.3%	17%	2.2%
Cnr Bank	2,125	05%	2.6%	10.9%	26%	1.5%
HDFC Bank	1,600	04%	4.2%	12.2%	17%	1.1%
IDBI Bank	1,571	04%	1.8%	08.1%	16%	1.8%
Axis Bank	1,424	03%	3.1%	09.4%	19%	1.1%
CBI	1,297	03%	2.7%	06.4%	18%	2.2%
Total Banking Sector	42,874	100%	2.9%	09.7%	17%	2.3%

Source: Annual Reports, Results of Banks, ICRA Research.

Total banking credit4 stood at close to Rs. 39 trillion as on March 25, 2011 and reported a strong 21.4% growth in 2010-11, led by credit to the infrastructure sector and to NBFCs. In 2011-12, although the pace of credit growth has been subdued in the first two months (up just 0.2% from March 2011 levels), it is in line with the pattern noticed in the previous years (0.1% in 2010-11 and 0.4% in 2009-10). According to ICRA‟s estimates, private banks reported a higher overall credit growth of around 26% in 2010-11 (10% in previous year) as compared with PSBs, which achieved around 22% (20% in previous year).

FIGURE 1.5 Trends in Growth of Banking Assets



Source: RBI, ICRA Research.

Historically, the banking sector's credit portfolio has been growing at over 20% per annum over the last several years (except in 2009-10, when the growth rate moderated to 17% mainly because of the decline in ICICI Bank's credit portfolio). Over the years, credit growth has outpaced deposits growth; the credit portfolio reported a CAGR of 24% over the last eight years, while deposits achieved a CAGR of 19% and the investment portfolio of 14% over the same period. The higher growth in credit could be achieved because of the slower growth in investments and the increase in capital. In 2010-11, while deposits growth for SCBs slowed down to 17%, credit growth was maintained at 21% with the growth in investments being just 13%. The higher credit growth vs. deposits growth led to an increase in the credit deposits ratio (CD ratio) from 72.2% as in March 2010 to 75.7% as in March 2011, although the CD ratio moderated to 74.2% as on May 27, 2011, largely because of the slow credit growth in comparison with deposits during the first two months of 2011-12.

TABLE 1.8 Domestic Credit Portfolio Compositions of SCBs

Credit Portfolio Composition	March 25, 2010	March 25, 2011	As % of Total Credit as in March 2011	Growth (Year on Year)
Agriculture and Allied Activities Loans	4,161	4,603	13%	11%
Non-Agri Corporate Loans				
Commercial Real Estate Loans	921	1,118	03%	21%
Loans to NBFCs	1,134	1,756	05%	55%
Power Sector Loans	1,878	2,692	07%	43%
Other Infrastructure Loans	1,920	2,575	07%	34%
Other Corporate Loans	14,528	17,076	47%	18%
Retail Loans				
Housing Loans	3,009	3,461	09%	15%
Credit Card Outstanding	201	181	00%	-10%
Vehicle Loans	638	793	02%	24%
Other Retail Loans	2,008	2,419	07%	20%
Total Non Food Credit	30,400	36,674	100%	21%

Source: RBI, ICRA Research

During 2010-11, the infrastructure sector, particularly power, and NBFCs were the key drivers of the credit growth achieved by the banking sector. Credit to the power sector reported a growth of 43%, while other infrastructure credit grew by 34% during 2010-11, against an overall credit growth of 21%. As in March 2011, the infrastructure sector (including power) accounted for 14% of the total credit portfolio of banks. Within the power sector, historically banks have been taking exposure to State power utilities as well as independent power producers (IPPs). Going forward, with many banks approaching the exposure cap on lending to the power sector and given the concerns hovering over the prospects of the sector itself, the pace of growth of credit to this segment could slow down. However, in the short to medium term, the undisbursed sanctions to power projects are likely to provide for a moderate growth.

As for bank credit to NBFCs, the same increased by 55% in 2010-11 and accounted for around 5% of the banks‟ total credit portfolio as in March 2011. Moreover, around half of this went to infrastructure related entities, and the rest mainly to NBFCs engaged in retail financing. Most of the NBFCs are focused on secured assets classes, have reported low NPA percentages, and are well-capitalised.

As for banks' retail lending, this continued to lag overall credit growth during 2010-11. Retail credit grew by 17% in 2010-11 against the overall credit growth of 21%, although the 17% figure marked a significant increase over the 4.1% reported in 2009-10. Credit to commercial real estate also increased in 2010-11, reporting a 21% growth that year as against nil in 2009-10.

The Gross NPA percentage of SCBs did not increase by the extent that the stress in the Indian market during 2008-09 would warrant because of large loan restructuring over last 2-3 years (4-5% of total advances); Gross NPAs declined marginally from 2.4% as in March 2010 to 2.3% as in March 2011. However, higher provisioning led to a reduction in Net NPAs from 1.1% as in March 2010 to 0.9% as in March 2011. Over the last two years, PSBs' Gross NPAs rose from 2% to 2.3%, while private banks‟ NPAs declined from 2.9% to 2.3%. The Gross NPA percentage of the PSBs got impacted by slippages from restructured accounts, "agri debt relief", and slippages because of automation of asset classification.

Better provisioning coverage and a stronger capitalisation profile allowed private banks report better solvency (Net NPA/Net Worth) than PSBs during last few years.

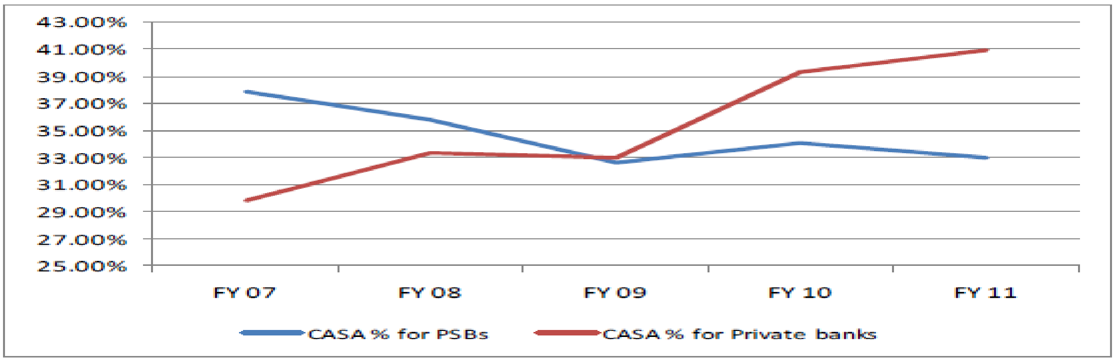
TABLE 1.9 Trends in Asset Quality Indicators of SCBs

SCBs	FY06	FY07	FY08	FY09	FY10	FY11*
Gross NPAs (%)	3.3	2.5	2.3	2.3	2.4	2.3
Net NPAs (%)	1.2	1.0	1.0	1.1	1.1	0.9
Fresh NPA Generation Rate (%)	2.0	1.7	1.8	2.1	2.2	2.0
Net NPAs/ Net Worth (%)	10.1	9.2	7.8	8.6	9.1	10.0
PSBs	FY06	FY07	FY08	FY09	FY10	FY11
Gross NPA (%)	3.6	2.7	2.2	2.0	2.2	2.3
Net NPA (%)	1.3	1.1	1.0	0.9	1.1	1.1
Net NPA/ Net Worth (%)	13.1	12.1	11.2	11.4	13.5	13.4
Private Banks	FY06	FY07	FY08	FY09	FY10	FY11
Gross NPAs (%)	2.1	2.1	2.4	2.9	2.7	2.3
Net NPAs (%)	0.9	0.9	1.1	1.3	1.0	0.6
Net NPAs/ Net Worth (%)	6.3	7.8	6.1	7.5	5.3	3.2

Source: Annual Reports of Banks, RBI, ICRA Research

In the banking system, historically, there has been a positive correlation between growth in deposits base and increase in interest rates; periods with high interest rates have seen relatively high deposits growth, as in a high interest rate regime bank fixed deposits become more attractive than many other instruments. At present, it appears that given the outlook on interest rates, banks may be able to mobilise retail deposits at a higher pace in 2011-12 than in the previous year.

FIGURE 1.6 Trends in Low- Cost Deposits of Banks

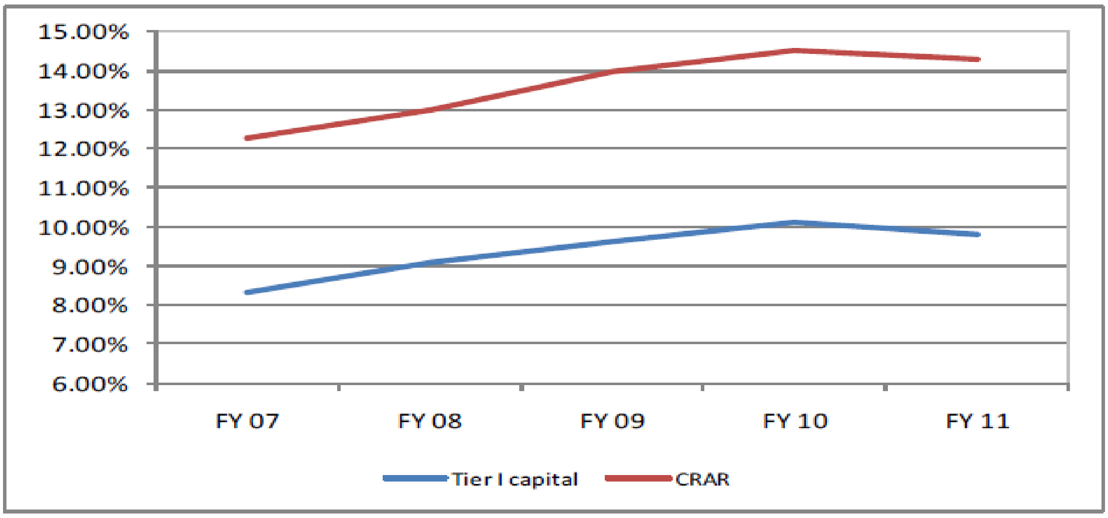


Source: RBI, Annual Reports/ Results of Banks, ICRA Research

In 2010-11, according to ICRA‟s estimates, the overall deposits of private banks increased by 22%, while that of PSBs increased by 18%. Within deposits, low cost deposits (CASA, current and saving accounts) increased by 27% for private sector banks and by 15% for PSBs. CASA deposits represented 41% of the total deposits for private banks, and for a lower 33% for PSBs. For banks, having significant low cost deposits (CASA) as a proportion of total deposits could help them keep their cost of funds under control even in a scenario of rising interest rates in the system.

The capitalisation profile of SCBs remains comfortable and much above the minimum regulatory requirements of 6% and 9% for Tier I capital and Capital to Risk weighted Assets Ratio (CRAR), respectively, although the CRAR and Tier I capital of SCBs declined in 2010-11. The decline is attributable largely to strong credit growth and the fall in the capitalisation level of the country's largest bank, State Bank of India (SBI).

FIGURE 1.7 Capitalization Profiles of SCBs

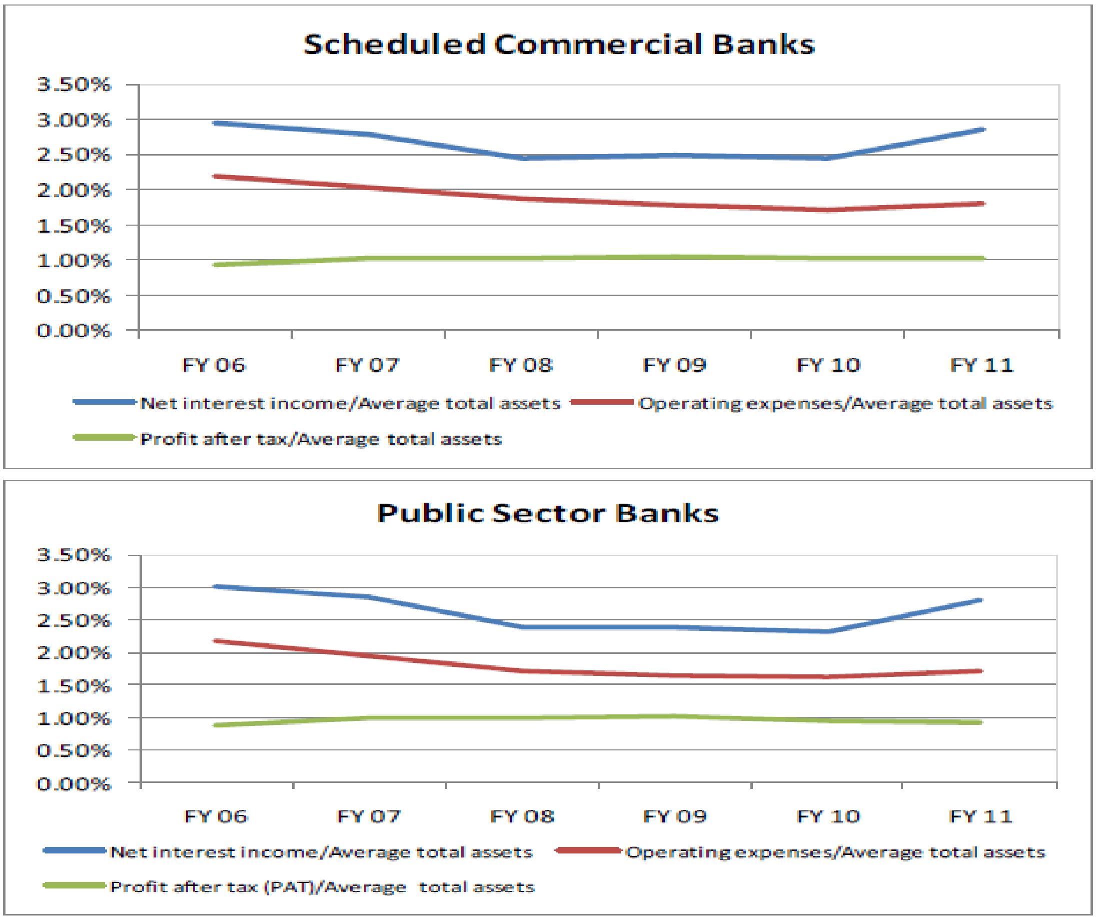


Source: RBI, ICRA Research.

The capitalisation profile of private banks continues to be better than that of PSBs, with the private banks' CRAR at around 16% and that of PSBs at around 13%, as in March 2011. However, continuous government support (via capital infusion) to enable PSBs maintain a minimum Tier I capital of 8% is likely to result in these banks being able to maintain a comfortable capitalisation profile over short to medium term.

The profitability profile of SCBs has remained steady over the years with the ratio of Profit after Tax to Average Total Assets (PAT/ATA) being in the 0.9-1.1% range. In 2010-11, while the profitability of SCBs benefited from the improvement in NIMs, the benefit was partly offset by the increase in their operating expenses and in credit provisioning, with banks rushing to raise the provisioning cover to 70%7. The rise in operating expenses largely followed the increase in the liability for pension & gratuity expenses8.

FIGURE 1.8 Trends in Profitability of SCBs and PSBs

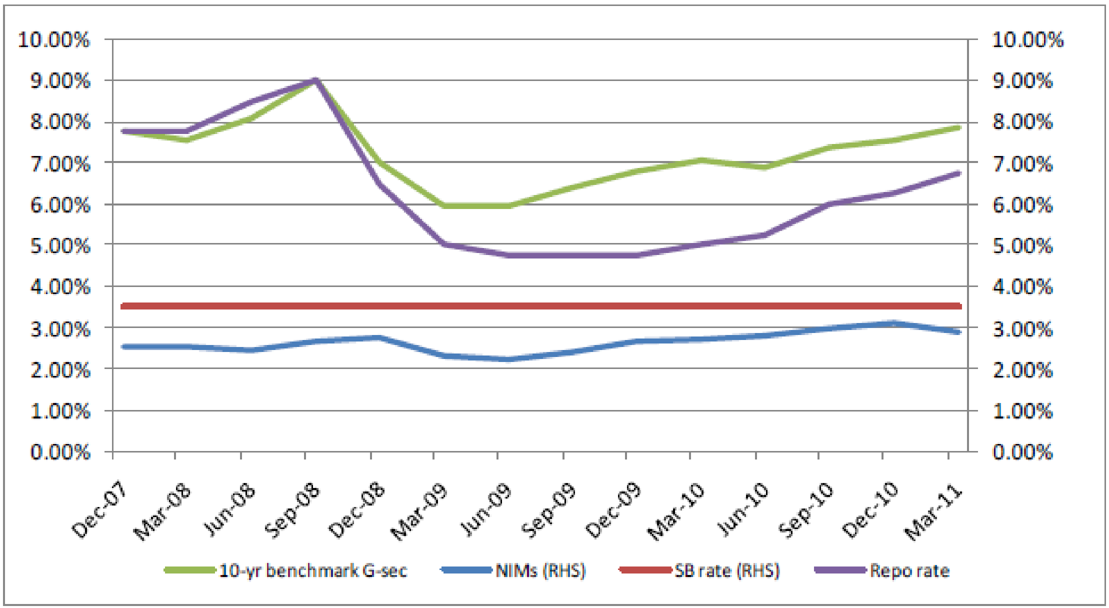


Source: RBI, Annual Reports and ICRA Research

As *Chart 6* shows, banks have historically reported an increase in NIM in a rising interest rate scenario, although the trend was broken in the fourth quarter (Q4) of 2010-11 by a higher rise in the cost of funds versus yield in advances. This positive correlation could be partly explained by the lag effect in term deposit re-pricing and partly by CASA deposits (34% of deposits or 28% of total liabilities), which are not interest rate sensitive; that is, interest rates are not linked to market rates.

Going forward, the interest rate sensitivity of banks could increase as the proportion of infrastructure loans (which are not as dynamically aligned to variable benchmark rates as loans to other sectors) increases and also if interest rates on SB deposits are deregulated. Overall, a temporary slack in credit growth (as is typically seen in the first half of a financial year) and adjustments in the lending rate to incorporate a higher rate on SB deposits (and such other factors) may lead to a dip in the NIM in the first half of 2011-12, but the margin could recover subsequently, depending on the credit off-take.

FIGURE 1.9 Quarterly Movements in NIM vs. Interest Rates

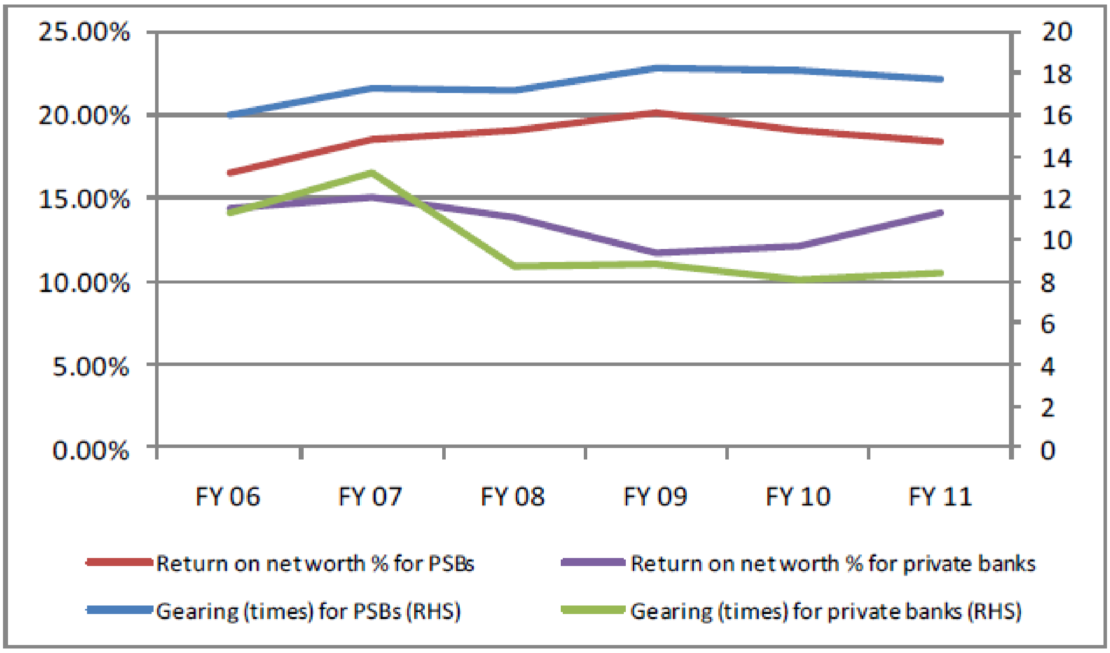


Source: RBI, ICRA Research

The profitability (PAT as a percentage of Total Assets) of SCBs has been stable at 0.9-1.1% over the last five years. Further, the profitability (PAT/Average Total Assets) of the PSBs has been lower (at around 0.9%) than that of private banks (at around 1.4%) over the same period. However, despite lower profitability, the return indicators (Return on Net Worth) of the PSBs remain higher than those of private banks primarily because of higher leveraging. During 2010-11, PSBs reported a Return on Net Worth of around 18%, and private banks of around 14%. Going forward, a temporary slack in credit growth (typical in the first half) and adjustments in lending rates (to incorporate a higher rate on saving deposits, etc.) may lead to a dip in the NIM in the first half of 2011-12. Subsequently, the NIM could recover, depending on the credit off-take.

Overall, despite the high levels of operating expense, banks are expected to report good core profitability, given their reasonable NIMs and lower credit provisions. At the same time however, depreciation on investments because of rising yields (50-75 bps from the March 31, 2011 levels) could pull down profitability by 5-10 bps.

FIGURE 1.10 Trends in Profitability in Gearing



Source: RBI, ICRA Research

3.9 Conclusion:

For SCBs, the cost of funds could go up partly because of the increase in the saving bank rate (by 5-15 bps) and partly because of higher incremental costs. A temporary slack in credit growth (as is typically seen in the first half of financial year) and adjustment in the lending rate (to incorporate the higher rate on saving deposits, etc.) may lead to a dip in the NIM in the first half of 2011-12, which could however recover subsequently, depending on the credit off-take.

The credit profiles of borrowers could weaken in 2011-12 because of a tight liquidity situation, higher interest rates, and moderation in GDP growth rate. The vulnerability of banks because of their increasing exposure to State power utilities is likely to increase, unless tariffs are revised upwards. However, these may not reflect in the Gross NPA percentage as there may be some regulatory respite. The Gross NPA percentage (for PSBs and private sector banks) may remain in the 2.3-2.7% range, as against 2.3% as on March 31, 2011. However, following regulatory relaxations, incremental credit provisions for 2011-12 could reduce to 0.35-0.45% of Average Total Assets as against 0.6% in 2010-11.

An increase in the proportion of infrastructure loans (from the current 14% of domestic credit) and deregulation of saving rates could worsen the asset-liability management (ALM) profile and increase the interest rate sensitivity of banks.

Indian banks continue to enjoy a comfortable capitalisation as compared with existing RBI norms with their Tier I capital close to 9%. Thus, apart from SBI, none of the PSBs may need significant Tier I capital in the short term. However, some of the fast-growing small private sector banks may need Tier I capital over short to medium term.

4. Corporate Governance and Banks

Banks are central to market development and socio-economic growth, regulatory and economic reforms including corporate governance practices. Like in many other parts of the world, bank also playing a critical role in the socio-economic development process in Asia. For example, banks are the dominant industry, important drivers for economic growth, most important sources of finance, and main depository for the economy's savings. Corporate governance principles and practices are most significant in the banking industries compared to the other industries and arguably one of the most important discussions in this current financial crisis. Banks accept money largely in the form of deposits from the general public (i.e. depositors). Banks lend money that is in effect "borrowed: from these depositors, and the failure of banks could result in a monetary loss for the depositors with significant consequences for the economy2.

Corporate governance principles and practices are particularly significant in the banking sector. Banks have an especially important role in any economy. First and foremost, they accept deposits from and are liable to the general public. These deposits constitute a significant portion of a nation's wealth, and must therefore be managed appropriately. Should this wealth be managed inadequately, people's money and livelihood could be at stake. Another issue that makes bank governance difference is the fact that banks provide loans. Banks are the sole source of finance for the great majority of the enterprises, in particular in emerging markets. The assessment and selection of customers and the ensuing decisions to extend or refuse credit are important processes that fundamentally influence the growth of the economy. Finally, some banks are expected to make credit and liquidity available in difficult market conditions. The importance of banks to national economies is underscored by the fact that banking is, almost universally, a regulated industry. It is thus of great importance that banks have strong corporate governance practices.
Source: Lebanese Banking Sector Corporate Governance Survey – July 2006, IFC and Association of Banks in Lebanon.

It is important to take a wider corporate governance view since banks are not fundamentally different from other companies with respect to corporate governance, even though there are important differences of degree and failures will have economy – wide ramifications. For example, operational and reputational risks might be more dynamic and valuable in banking than in other companies but the need to effectively manage risk is the same. What differentiates banking in terms of corporate governance is the more important role of stakeholders (i.e. depositors) and implicit or explicit guarantees with respect to classes of liabilities which changes the incentives facing boards, shareholders and managers. Failure of a bank could also have systematic consequences which is not the case with non banks.
Corporate Governance and the Financial Crisis: Key Findings and Main Messages, June 2009, OECD.

4.1 Why Corporate Governance in Banks?

If we examine the need of improving corporate governance in banks, two reasons stand out:

(i) Banks exist because they are willing to take on and manage the risks. Besides with the rapid pace of financial innovations and globalization, the face of banking business is undergoing a sea change. Banking business is becoming more complex and diversified. Risk taking and management in a less regulated competitive market will have to be done in such a way that investors' confidence is not eroded.

(ii) Even in a regulated set up some big banks in the public as well as in the private sector had incurred substantial losses. This along with the massive failure of NBFCs, had adversely impacted investors'

Another important paramount matter for banks is protecting the interest of depositors. Banks deal in peoples' funds and should, therefore, act as trustees of the depositors. But there are evidence across the world that vulnerability of depositors to the whims of managerial misadventures in banks and that why banks should be regulated tightly than other corporate.

So we can say that the main objective of corporate governance in banks is to protect the depositors' interest and then be to 'optimise' the shareholders' interests. All other consideration would fall in place once these two are archived. And for achieving all these, sound corporate governance is very much essential. Sound corporate governance makes the work of supervisors infinitely easier and also contributes to a collaborative working relationship between bank management and bank supervisors. In addition, transparency of information related to existing conditions, decisions and action is integrally related to accountability in that it gives market participants sufficient information with which to judge the management of a bank.

4.2 Corporate Governance and the World Bank:

The World Bank report in corporate governance is a landmark in the evolution of the theory and application of this concept of best corporate behaviour. The World Bank report on corporate governance recognizes the complexities of the very concepts of corporate governance and therefore focuses on the principles on which it is based. These principles such as transparency, accountability, fairness and responsibility are universal in their application. The way they are put into practice has to be determined by those with the responsibility for implementing them. The stronger the partnership between the public and private sectors, the more soundly base will be their governance structures. Equally as the report emphasises, governance initiatives wins more support when driven from the bottom up rather than from the top down.

Corporate governance is concerned with holding the balance between economic and social goals and between individuals and community goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society. The World Banks report points the way to the establishment of trust and the encouragement of enterprise. It marks an important milestone in the development of corporate governance.

4.3 Basel Committee on Corporate Governance:

In 1988, the Bank for International Settlement (BIS) – based Basel Committee on Banking Supervision came out with regulations regarding the capital requirements for banks. Although these were essentially intended for internationally operating banks, in due course, almost all countries adopted these regulations for their banks.

The crux of the Basel-I requirements is the assignment of risk weights for different assets in a bank's book and aggregating the risk weighted assets of which 8 percent was recommended as the capital of the bank. The committee's recommendations were not mandatory but the world's central banks speeded up the process of compliance, particularly following the East Asian crisis and the collapse of certain hedge funds in New Your which threatened to bring down banking systems of the US and the developed world. India adopted Basel – I norms in 1992 closely following the inception of economic reforms.

Basel committee published a paper on corporate governance for banking organizations in September 1999. The committee felt that it was the responsibility of banking supervisors to ensure that there was effective corporate governance in the banking industry. Basel Committee underscored the need for banks to set strategies for their operations. The committee also insisted banks to establish accountability for executive these strategies.

The Basel Committee has also issued several papers on specific topics, where the importance of corporate governance has been emphasized. These includes Principles for the Management of Interest Rate Risk (September 1997), Framework for Internal Control Systems in Banking Organizations (September 1998), Enhancing bank Transparency (September 1998) and Principles for Management of Credit Risk (issued as a consultative document in July 1999). These papers have highlighted the fact that strategies and techniques that are basic to sound corporate governance include the following:

- The corporate values, codes of conduct and other standards of appropriate behaviour and the system used to ensure compliance with them.
- A well articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured.
- The clear assignment of responsibilities and decision making authorities, incorporating a hierarchy of required approvals from individuals to the board of directors.
- Establishment of mechanism for the interaction and cooperation among the board of directors, senior management and the auditors.

- Strong internal control systems, including internal and external audit functions, risk management functions, independent of business lines and other checks and balances.
- Special monitoring of risk exposures where conflict of interest are likely to be particularly great, including business relationship with borrowers affiliated with the banks, large shareholders, senior management or key decision makers within the firm.
- The financial and managerial incentives to act in an appropriate manner offered to senior management, business line management and employees in the form of compensation, promotion and other recognition.
- Appropriate information flows internally and to the public.

4.4 Sound Corporate Governance Practices for Banks:

Supervisors have a keen interest in determining that banks have sound corporate governance. For that purpose, supervisors are required to critically evaluate the corporate governance structure on the basis of following elements:

4.4.1 Ensuring the Critical Elements of Corporate Governance Process:

a) Establishing strategic objectives and a set of corporate valued that are communicated throughout the banking organizations.
b) Setting and enforcing clear lines of responsibility and accountability throughout the organization.
c) Ensuring that board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from management or outside concerns.
d) Ensuring that there is appropriate oversight by senior management
e) Effectively utilizing the work conducted by internal and external auditors, in recognition of important control function they provide.
f) Ensuring that compensation approaches are consistent with the bank's ethical values, objectives, strategy and control environment
g) Conducting corporate governance in transparent manner

4.4.2 Ensuring Sound Corporate Governance Environment:
The Basel Committee recognizes that primary responsibility for good corporate governance resets with board of directors and senior management of banks; however there are many other ways that corporate governance can be promoted, which includes the following:

a) Government – through laws
b) Securities' regulations, stock exchanges – through disclosure and listing requirements

c) Auditors – through audit standards on communications to board of directors, senior management and supervisors
d) Banking industry associations – through initiatives related to voluntary industry principles and agreement on and publication of sound practices.

4.4.3 Ensuring the Role of Supervisors:

Supervisors should be aware of the importance of corporate governance and its impact on corporate performance. They should expect banks to implement organizational structures that include appropriate checks and balances. Regulatory safeguards must emphasis accountability and transparency. Supervisors should determine that the boards and senior management of individual institutions have in place processes that ensure they are fulfilling all of their duties and responsibilities.

Sound corporate governance considers the interest of all stakeholders, including depositors, whose interest may not always be recognized. Therefore it is necessary for supervisors to determine that individual banks are conducting their business in such a way as not to harm depositors.

4.4.4 Ensuring the New Basel Capital Accord (Basel II), its Implementation and its Impact:

On 26^{th} June, 2004, the committee came out with new Basel norms that are expected to change the complexion of banking throughout the world. The final version of the revised accord, titled "The International Convergence of Capital Measurement and Capital Standards: A Revised Framework" is known in short as the New Basel Capital Accord or simply Basel II.

Basel II aims at correcting most of the deficiencies that Basel I suffered from. Basel II rests on three pillars as given below:

- Pillar I of the new capital framework revised the 1988 Accord's guidelines by aligning the minimum capital requirements more closely to each bank's actual risk of economic loss.
- Pillar II of the new capital framework recognizes the necessity of exercising effective supervisory review of banks' internal assessment of their overall risks to ensure that bank management is exercising sound judgement and has set aside adequate capital for these risks.
- Pillar III leverages the ability of market discipline to motivate prudent management by enhancing the degree of transparency in banks' public reporting. It sets out the public disclosures that banks must make that lend greater insight into the adequacy of their capitalization.

The implementation of Basel II is imperative in the context of emerging market economies that "may face unique problems in the absence of well developed credit rating systems, robust data collection mechanisms and other infrastructure". So non implementation without justifiable reasons will finally get reflected in adverse credit ratings, higher borrowing costs and the consequent effects on the real economy. This is one reason no country can afford to delay implementation of Basel II indefinitely.

4.5 Corporate Governance and Indian Banks:

The subject of corporate governance has received a lot of attention in recent times in India, corporate governance issues and practices by Indian banks have received only a scanty notice. The question of corporate governance in banks is important for several reasons in India, because India has recently liberalized its banking system through privatization, disinvestments and has reduced the role of economic regulation and consequently managers of banks have obtain greater autonomy and freedom with regard to running of banks. This would necessitates their observing best corporate practices to regain the investors' confidence now that the government authority does not protect them anymore. Corporate governance in banks has assumed importance in India post 1991 reforms because competition compelled banks to improve their performance. Even the majority of banks and financial institutions, owned, managed and influence by the government with neither high quality management nor any exemplary record of practising corporate governance have realised the importance of adopting better practices to protect their depositors and the banking public.

4.5.1 Indian Banking Sector's Unique Nature and its Implications:

The unique nature of banking firm is in the developed or developing world, requires a broad view of corporate governance to be adopted by banks which encapsulates both shareholders and depositors. In particular, the nature of the banking sector is such that regulations are necessary to protect depositors as well as the overall financial system. The narrow approach to corporate governance views the subject as the mechanism through which the shareholders are assured that managers will act to promote their interests. The special nature of banking will call for the adoption of the broader view of corporate governance for banks. Besides, the special nature of banking requires government intervention in order to restrain the behaviour of bank management.

A further issue is that interest of bank shareholders may oppose those of governmental regulators, who have their own agendas, which may not necessarily coincide with maximizing bank value. Shareholders may want managers to take more risk than a socially optimal, whereas regulators have a preference for managers to take substantially less risk due to their concerns about system-wide financial stability. Shareholders could motivate such risk taking using incentive compatible compensation schemes. However, from the regulators point of view, managers' compensation schemes should be structured so as to discourage banks from becoming too risky.

4.5.2 Government Control and Withdrawal Effects:

In India, the issue of corporate governance in banks is complicated by extensive political intervention in the operation of the banking system. Government ownership of banks is a common feature in India. The reason for such ownership may include solving the severe informational problems inherent in developing financial systems, aiding the development process or supporting vested interests and distribution cartels. With a government owned bank, the severity of the conflict between depositors and managers very much depends upon the credibility of the government. Given a credible government and political stability, there will be little conflict as the government ultimately granted deposits.

The inefficiencies associated with government owned banks especially those emanating from a lack of adequate managerial incentive have led governments under some pressure from international agencies to begin divesting their ownership stakes. In the case of India too, there are subtle pressure on the government from international organizations that provide development funds such as the World Bank and International Monetary Fund to withdraw their stakes in commercial banks. The divestment of government owned banks raises several corporate governance issues. If banks are completely privatised, then there must be adequate deposit insurance schemes and supervisory arrangements established in order to protect depositors and prevent a financial crash.

To sum up, effective governance of banks must have the following minimum criteria:

1. The basic objective of governance should be safeguarding depositors’ money and optimising shareholders’ interests.
2. The directors should be competent and persons of integrity.
3. The chairman of the board should preferably be unconnected with the management of the bank.
4. Board can function through committees and Risk Management Committee assumes special importance in the context of rapid changes taking place in the financial markets. In measuring and monitoring risks, the board should enlist the assistance of experts.
5. The board should forbid banks from pursuing business which might be proper in form but highly improper in substance.
6. As a general rule, the board should ask the management to spell out as to when a transaction, especially in derivative products, could result in losses and take a view on the probability of incurring the losses. On the basis of the overall risks appetite of banks, the transaction may be approved or rejected.
7. Suitable risks and rewards system should be put in place for the directors of banks.

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[iii] Lawrence, Peter and I. Longjam (2003), "Financial Liberalization in India: Measuring Relative Progress", *Keele Economics Research Paper* No. 2003/8, Kele University. *www.keele.ac.uk/depts/ec/kerp*.

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[viii] http://www.oecd.org/dataoecd/32/18/31557724.pdf

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[xiv] *www.mudara.org/services/research/newsletter/**2008**/files/final.pdf*

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[xvi] *http:www.sec.gov/news/speech/spch449.htm*

[xvii] This section draws heavily from the history of Indian corporate governance in Omkar Goswami, 2002, "Corporate Governance in India," *Taking Action Against Corruption in Asia and the Pacific* (Manila: Asian Development Bank), Chapter 9.

[xviii] http://www.oecd.org/dataoecd/32/18/31557724.pdf

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[xx] Bhat & Varun, publication of Iowa Law Review, University of Iowa dated 1st May, 2007.

[xxi] See Tarun Khanna and Yishay Yafeh, 2005, Business Groups in Emerging Markets: Paragons or Parasites? *Finance Working Paper N° 92/2005*, European Corporate Governance Institute.

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[xxv] Ravi M. Kishore, Taxmann's Advanced Accounting, 2nd edition 2007.

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Chapter 2

Research Methodology

CHAPTER 2

RESEARCH METHODOLOGY

2.1 Introduction:

Corporate governance is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy its shareholders, creditors, employees, customers and suppliers. It aims to comply with the legal and regulatory requirements, besides meeting the environmental and local community needs. It includes the policies and procedures adopted by a company to achieve its objectives in relation to its shareholders, employees, customers, suppliers, regulatory authorities and the community at large. It prescribes a Code of Corporate Conduct in relation to all the stakeholders. Therefore a framework of effective accountability to the stakeholders is the essence of corporate governance.

In India, the question of corporate governance has come up mainly in the wake of economic liberalization and deregulation of industry and business as well as the demand for a new corporate ethos and stricter compliance with the legislation. In this context, where the financial institutions hold substantial stakes in companies, the accountability of all the directors, including ex-officious/ independent and nominees, has come into sharp focus. Therefore a good governance demands that a company must have a responsibility to set exemplary standards of ethical behaviour, both within the organization as well as in their external relationships by virtue of which the company can achieve value addition in terms of stability and growth, confidence, reduction of perceived risks, reduction of cost of capital, stability and long term sustenance of stakeholders relationship, position of pride and exemplary governance credentials. The new economic policy adopted by the Government of India consequent to liberalization and opening up of the economy since 1991, has necessitated the demand for introduction and implementation of a proper corporate governance policy in the day to day management of the companies, not only in the interest of their stakeholders but also for the development of the economy.

Corporate governance reforms in India have evolved a wide range of institutional and corporate initiatives that include (i) improving the functioning of capital markets, (ii) ensuring more effective protection of minority investors through promoting greater transparency of operations and higher standards of information disclosures, (iii) reforming company board structure and operational system to make the board of directors more accountable to the shareholders, (iv) reforming governance mechanisms of financial institutions etc.

The corporate governance initiatives have come from (a) the Government through governmental legislations involving several amendments to the Companies Act, 1956; (b) the organizations, regulating capital market, especially the SEBI in the form of statutory regulations; (c) through self disciplining and voluntary initiatives taken by the industry, chamber of commerce and business associations, professional bodies and the company themselves. Various committees have been formed by Government of India, SEBI and industry associations and their recommendations for implementation of corporate governance norms in Indian corporate houses have been submitted during the period 1998 to 2005.

2.2 Problem Identification:

Researcher has framed the following problem for this work:

"AN EMPIRICAL STUDY ON CORPORATE GOVERNANCE IN INDIAN BANKING SECTOR"

The title of the study highlights the detailed analysis of corporate governance practices of selected Indian banks and on the basis of analysis, researcher has shown the findings and suggestions for improvement of the current system.

2.3 Objectives of the Study:

The main objective of this study is to determine the corporate governance practices in the banking sector of India. The study targets to identify the practices in different CG issues e.g. level of commitment to good corporate governance, effective board practices, control environment and processes, information disclosure and transparency, shareholders rights, and external monitoring etc. The present study also critically examines the governance prevailing in the banking sector in India in the light of notable international practices with a view to suggesting ways and means for improvement to serve the needs, as best as possible, of the stakeholders within the regulatory framework. Good governance is likely to lead to growth and prosperity of not only of the corporate sector but also of the economy as a whole. On the contrary, bad governance may bring in disaster to the stakeholders and the economy. More specifically, the objectives of the study are to:

1) Determine the commitment to implement good corporate governance practices among the public sector banks and private sector banks in India.
2) Identify the control environment and processes of the corporate governance in banking sector of India.
3) Determine the level of disclosures, the accuracy and timeline of the financial position, condition and prospects, and other non-financial information of the banks in India.
4) To develop Corporate Governance Disclosure Index on the basis of financial and non financial disclosures.
5) Finally, to develop a set of policy recommendations for addressing the major concerns derived from the analysis.

2.4 Review of the Existing Literature:

A good number of theoretical and empirical researches on corporate governance disclosure have been undertaken throughout the globe due to the continuing emphasis on this. For this study, researcher has reviewed various research publications and other useful data to get the proper understanding of the concept. Review of the existing literature used for this study is briefed as under.

Karim et al. (1996)[lii] argued that annual reports of the companies should be considered as the most important source of information about a company and they used that for a variety of reasons.

From the context of India, N. Gopalswamy (1998) has written a book "A Corporate Governance: A New Paradigm", covers the basic three parts: corporate governance, business environment and globalization. For corporate governance, he has conceptual overview, role of board of directors, audit committee, corporate disclosure practices and investors' protection. A few studies have examined corporate governance in emerging markets, although none has estimated the link between CEO turnover and corporate performance that is the focus of this paper. Researchers have studied the implications of the concentrated ownership that is common in many emerging and developed markets.

Reddy (1998)[liii] had recommended that the positions of chairman and managing director in public enterprises1 would be needed to be vested in one person as against the popular view for the private sector. This is in order to protect the interests of the organisation. The major challenge in progressing to good corporate governance is to build essential knowledge on relevant laws, duties and responsibilities, financial analysis, strategy, business ethics and effective decision-making.

La Porta et al (1998)[liv] study corporate governance patterns in 27 countries and conclude that "the principal agency problem in large corporations around the world is that of restricting expropriation of minority shareholders by the controlling shareholders".

More recently, the intellectual debate on corporate governance has come to focus on two different issues. The first concerns whether corporate governance should focus exclusively on protecting the interests of equity claimants, on whether corporate governance should expand its role to deal with the problem of the other group: the 'stakeholders' or non-shareholder constituencies. The second issue of importance to corporate governance scholars begins with the assumption that corporate governance concerns itself exclusively with the challenge of protecting equity claimants and attempts to specify ways in which the corporation can better safeguard those interests [BCBS 1999][lv].

As regards the issue of corporate governance in banking organisation, Jalan (2001)[lvi] has examined the issue of corporate governance in public versus private banks and thereafter. Sarkar and Sarkar (2000)[lvii] provided evidence on the role of large shareholders in monitoring company value in the Indian context, whose corporate governance system is a hybrid one. Similar to other studies, this study also found that after a definite level of block holdings by directors the company value enhances. But it did not find any substantial proof that institutional investors, normally mutual funds, are active in corporate governance. The outcome advocates that lending institutions start supervising the corporation efficiently only after the equity holding cross a considerable value and this supervision is reinforced by the level of liability of these corporations. The study provides substantial proof that company value is enhanced by foreign equity ownership. In general, the analysis supports the view emerging from developed country studies that the Identity of large shareholders matters in corporate governance.

Bushman and Smith (2001)[lviii] argued that a fundamental objective of corporate governance research in accounting is to provide evidence on the extent to which information provided in financial accounting systems mitigate agency problems. But except for size and, to a lesser extent, ownership structure, Réal Labelle (2002)[lix] did not find consistent and significant relations between disclosure quality of governance practices and firm performance or other corporate governance variables such as the proportion of unrelated director, the CEO's plurality of offices and the level of financing activity in Canada.

Mukherjee (2002) argues that India has been moving closer to taking on an Anglo-American (Anglo-Saxon) form of corporate governance. But the author questions the usefulness of the Anglo-American model. She answers this question through an assessment of the "development impact" of the new model as pointed out by measures such as growth, employment and respect for shareholder rights. The results suggest that the Anglo-American model is not very effective in meeting the objectives of the social system in India.

Reddy (2002)[lx] has discussed the governance challenges in public sector banking. To quote from Reddy (2002):

Corporate governance in PSBs is important, not only because PSBs happen to dominate the banking industry, but also because, they are unlikely to exit from banking business though they may get transformed. To the extent there is public ownership of PSBs, the multiple objectives of the government as owner and the complex principal-agent relationships cannot be wished away. PSBs cannot be expected to blindly mimic private corporate banks in governance though general principles are equally valid. Complications arise when there is a widespread feeling of uncertainty of the ownership and public ownership is treated as a transitional phenomenon. The anticipation or threat of change in ownership has also some impact on governance, since expected change is not merely of owner but the very nature of owner. Mixed ownership where government has controlling interest is an institutional structure that poses issues of significant difference between one set of owners who look for commercial return and another who seeks something more and different, to justify ownership. Furthermore, the expectations, the reputational risks and the implied even if not exercised authority in respect of the part-ownership of government in the governance of such PSBs should be recognised. In brief, the issue of corporate governance in PSBs is important and also complex.

Research in the field of corporate governance disclosure during the past years has mainly focused on the disclosure practices found in the annual reports by determining the extent of corporate governance disclosures in the annual reports of the companies of a country.

Gompers et al (2003)[lxi] used the incidence of 24 governance rules to construct a "Governance Index" to proxy for the level of shareholder rights at about 1500 large firms in the USA during the 1990s. They found that firms with stronger shareholder rights had higher firm value, higher sales growth, higher profits, lower capital expenditures, and made fewer corporate acquisitions. Similarly, a number of attempts have been made by various researchers throughout the world regarding the determinants of corporate governance.

The study by Mohanty (2003) suggests that companies with good corporate governance measures are easily able to borrow money from financial institutions as compared to companies with poor corporate governance measures. Moreover, there is evidence that mutual funds have invested money in companies with a good corporate governance track record as compared to companies with a poor CG track record.

By making use of a simultaneous equation approach, this study wraps up by saying that this positive relationship is a result of the "mutual funds (development financial institutions) investing (lent money) in companies with good governance records" and also because "their investments have helped to enhance the financial performance of such companies" (Mohanty, 2003).

Some recent studies have attempted to explore the issue of corporate governance in banking organisations. Boubakri et al (2003)[lxii] examine the corporate governance features of newly privatised firms in Asia and documents how their ownership structure evolves after privatisation. The results suggest that, on the one hand, privatisation leads to a significant improvement in profitability, while, on the other hand, it creates value for shareholders.

Joh (2003)[lxiii] presents evidence on corporate governance and firm profitability from Korea before the economic crisis and finds that the weak corporate governance system offered few obstacles against controlling shareholders expropriation of minority shareholders. In fact, weak corporate governance systems allowed poorly managed firms to stay in business and resulted in inefficiency of resource allocation, despite low profitability over the years.

Anderson and Campbell (2003)[lxiv] investigate corporate governance activity at Japanese banks. The results indicate that there does not exist any relation between bank performance and non-routine turnover of bank presidents, in the pre-crisis (1985-90) period, although there is an observed significant relationship between turnover and performance in the post-crisis (1991-96) period.

In the Twenty First Session of International Standards of Accounting and Reporting (Geneva 27-29 October, 2004) UNCTAD Secretariat presented a report[lxv] (which was prepared after conducting a survey on 30 companies representing different geographical regions and industry) that found increasing convergence among national and international corporate governance codes and guidelines but it also reported significant deviation in terms of disclosure practices and content of disclosure.

The role and the need of good corporate governance in India have been reiterated in several forums [Verghese 2002][lxvi]. However, Kohli (2003)[lxvii] stressed that corporate governance has to be perceived and understood in a much broader spectrum, encompassing all players involved in the business, instead of restricting it only to board and executive management. It is believed that a company having better corporate governance is quoted at a premium in the bourses than those with weak corporate governance practices.

Das and Ghosh (2004)[lxviii] tried to establish a linkage between CEO compensation and bank performance in India. They concluded that CEOs of properly performing banks are likely to face higher turnover than the CEOs of well performing banks. As there is a dearth of impact studies of corporate governance policy implementation on financial performance of the banks, more particularly in Indian context, this study is an attempt to fill the gap.

Morck Et al. (2005)[lxix] reviews the large literature that explores the connection between country level rules affecting corporate governance and firm behavious and the strength of security markets. Whereas Choiand Hasan (2005)[lxx] examined the effect of ownership and governance on firm performance and discover the evidence that the extent of foreign ownership level has a significant positive association with the bank return and a significant negative association with the bank risk; the number of outside board of directors does not have any significant effect of ownership and governance on firm performance.

Durnev and Kim (2005)[lxxi] provide empirical and theoretical evidence that companies with greater growth opportunities, greater needs for external financing, and more concentrated cash flow rights practice higher quality governance and disclose more and the strength of their influence depends in part on the country's legal environment. On the other hand, Barucci and Falini (2005)[lxxii] find that in Italian financial market, governance features are affected by shareholders' composition, balance sheet data and company features.

Bernard S. Black has made a seminal contribution to the study of the impact of governance on firm valuation in Russia and other emerging markets. [Black et al. 2006]. He finds that economically important and statistically strong correlation between governance and market value possible when the measures of corporate governance matters.

Rajesh Chakrabarti (2006)[lxxiii] said that the problem of corporate in India is different from that of the Anglo-Saxon environment. In India, the problem is the exploitation of minority shareholders by the dominant shareholders, whereas in the Anglo-Saxon environment, it is exploitation of shareholders by the managers. The author argues that in the Indian context, the capital market is more capable of disciplining the majority shareholders than the regulators. The regulator can just facilitate the market to ensure corporate governance. It cannot enforce corporate governance effectively, since it involves micro-management.

Anand et al. (2006)[lxxiv] provide empirical evidence that the absence of a large empirical block holding and a high need for external financing are the firm characteristics associated with the adoption of the Canadian guidelines and when it comes to voluntarily adopting the U.S. Sarbanes-Oxley Act (SOX) provisions, firm size becomes an important determinant. Although executive pay has been a controversial issue for many years, the current financial crisis has drawn greater attention to the role of executive pay in encouraging excessive risk taking, promotion and undue focus on the short term and rewarding senior management for poor performance and, in some cases, unmitigated failure. Moody's (2008)[lxxv] has claimed that the most pressing challenges for boards in the area of executive compensation will be (a) moderating potential pay outcomes, (b) structuring pay to better promote a long term focus, (c) ensuring the appropriateness of performance targets and ,metrics, (d) improving exit pay practices, and (e) ensuring appropriate executive retirement and deferred composition plans.

Adams (2009)[lxxvi] compared board characteristics and incentives in financial firms and non financial firms to address the question of how much blame the board of directors should shoulder for the failure. Boards of financial firms clearly share some responsibility for the crisis because it was their duty to oversee managers who led their banks to the brink of failure. Lag and Jagtiani (2010)[lxxvii] continued their analysis adding that one of the financial crisis was that large financial firms were willing to engage in this complex mortgage related products when they had not built the capability to analyse the portfolio risk of these activities. Further, no oversight function within the company demanded that kind of information and that kind of analysis.

Irrespective of the business goal considered, effective governance guarantees that the administration (managers and the board) are responsible for achieving it. The job of successful corporate governance is of immense significance to society as a whole. In the first place it promotes efficient use of scarce resources both within the organization and the larger economy. Secondly, it makes the resources flow to those sectors or entities where there are efficient production of goods and services and the return is adequate enough to satisfy the demands of stakeholders. Thirdly, it provides a broad mechanism for choosing the best managers to administer the scarce resources. Fourthly, it helps the managers to constantly focus on enhancing the company performance, ensuring that they are sacked when they don't succeed in doing so. Fifthly, it puts pressure on the corporation to abide by the law as well as achieve what the society expects from it. And last but not least, it assists the supervisors in regulating the entire economic sector without partiality and nepotism.

2.5 Scope of the Study:

This study is based on the corporate governance practices of Indian banking sector. Further, the corporate governance practices of banking sector companies which are listed in the BSE BANKEX on 1st January, 2010 are studied. The present study is made for a period of five accounting year starting from 2006- 07 to 2010 - 11. Researcher has selected the base year 2006- 07. This year is normal for the purpose of analysis and evaluation. It can be summarized that this study scope will include the areas of corporate governance and its practices in banking sector of India for five financial years 2006-07 to 2010-11.

2.6 Period of the Study:

In present study, the researcher has considered the duration of five financial years, from 2006-07 to 2010-11. So all the data collected is based on the annual reports of this duration only.

2.7 Rational of the Study:

This study provides a comprehensive comparative analysis of corporate governance regulatory systems and their evolution over the last 5 years in selected banks of India. It proposes a methodology to create detailed corporate governance indices which capture the major features of capital market laws in the analyzed Indian banking sector. The indices indicate how the law in each bank addresses various potential agency conflicts between corporate constituencies: namely, between shareholder and managers, between majority and minority shareholders, and between shareholders and bondholders. The analysis of regulatory provisions within the suggested framework will enable researcher to understand better how corporate law works in a particular banking company and which strategies regulators adopt to achieve their goals.

2.8 Sampling:

Table 2.1: Selected Banks for the Research

Sr. No.	BSE Scrip Code	Banks	PSB/ PVT*
1	532480	Allahabad Bank	PSB
2	532215	Axis Bank	PVT
3	532134	Bank of Baroda	PSB
4	532149	Bank of India	PSB
5	532483	Canara Bank	PSB
6	500469	Federal Bank	PVT
7	500180	HDFC Bank	PVT
8	532174	ICICI Bank	PVT
9	500116	IDBI Bank	PSB
10	532388	Indian Overseas Bank	PSB
11	532187	IndusInd Bank	PVT
12	532652	Karnataka Bank	PVT
13	500247	Kotak Mahindra Bank	PVT
14	500315	Oriental Bank of Commerce	PSB
15	532461	Punjab National Bank	PSB
16	500112	State Bank of India	PSB
17	532477	Union Bank of India	PSB
18	532648	Yes Bank	PVT

*PSB = Public Sector Bank, PVT = Private Sector Bank

Indian banking sector comprises the varieties of banks that can be divided as PSBs, Private Sector Banks, Foreign Banks and Co-operative Banks etc. Though, corporate governance bind to all type of banks but for precise focus, researcher has selected the banking companies listed in the BANKEX [BSE] as on 1st January, 2010 on the basis of their market capitalization. All the listed banks in BANKEX are divided in two groups – PSBs and private sector banks to study and analyze their Corporate Governance Practices. The selected banks are shown under Table 2.1 in alphabetical order.

2.9 Sources and Collection of Data:

The main source of data used for the study is secondary, derived from the published annual reports of selected banks and disclosure on websites of the banks and some portion is primary data which is collected through personal visits at the banks. The data relating to history, growth and development of Indian banking sector and selected banks have been collected mainly from the books, magazines relating to banking sector, published paper, report, articles, news papers, bulletins, other journals like monthly review of Economy and web sites relating to banking sector. The data relating to the selected banks under the study have been obtained from prospectus, pamphlets and annual reports of the selected banks.

2.10 Data Analysis:

The main objective of this study is to examine the level of corporate governance disclosures of the sample banks. So a disclosure index has been developed [based on the papers prepared by the UN secretariat for the nineteenth session of ISAR (International Standards of Accounting and Reporting), entitled "Transparency and disclosure requirements for corporate governance" and the twenty second session of ISAR, entitled "Guidance on Good Practices in Corporate Governance Disclosure"] for the banks under study. Issues in corporate governance disclosure are classified into 5 broad categories. Financial disclosures, non-financial disclosures, annual general meetings, timing and means of disclosure, and best practices for compliance with corporate disclosure. Under non-financial disclosures, different headings such as company objectives, governance structure and policies, members of the board and key executives, material issues regarding employees, environmental and social stewardship, material foreseeable risk factors, and independence of auditors are used. Under all these broad and subcategories, a total of 45 issues have been considered.

For this research, selected banks listed in the BSE BANKEX index will be considered. The banks will be classified into two categories under 2 broad headings: Nationalized Banks and Private Banks. Nationalized banks include nationalized banks and. Private Banks includes private banks working in India. The primary sources used for the survey include company annual reports and internet.

With the help of the list of disclosure issues, the annual reports of the banks will be examined. A dichotomous procedure will be followed to score each of the disclosure issue. Each bank will be awarded a score of ‘1’ if the bank appears to have disclosed the concerned issue and ‘0’ otherwise. The score of each bank will be totalled to find out the net score of the bank. A corporate governance disclosure index (CGDI) was then computed by using the following formula:

$$CGDI = \frac{\text{Total Score of the Individual Company}}{\text{Maximum Possible Score Obtainable by the Company}} \times 100$$

2.11 Hypothesis:

The following hypothesis will be tested during the research study:

H_0: Banks do not differ significantly in average financial disclosure index.

H_1: Banks differs significantly in average financial disclosure index.

H_0: Banks do not differ significantly in average non financial disclosure index.

H_1: Banks differs significantly in average non financial disclosure index.

H_0: There is no significant difference in the average CGDI among Group I Banks.

H_1: Significant difference exists in the average CGDI among Group I Banks.

H_0: There is no significant difference in the average CGDI among Group II Banks.

H_1: Significant difference exists in the average CGDI among Group II Banks.

H_0: There is no significant difference in between financial and non financial average CGDI.

H_1: Significant difference exists between the financial and non financial average CGDI.

2.12 Organization of the Research:

The research study report is prepared and presented under the sequentially arranged in four chapters. Between the highlights of each chapter are as under:

Chapter – 1: Overview of Corporate Governance and Conceptual Framework: This chapter includes introduction, history, need and concept of corporate governance, objectives of corporate governance, corporate governance scenario in Indian Banking Sector and guidelines of different committees, Listing Agreement and factors affecting to the corporate governance, corporate governance report and qualitative characteristics of good corporate governance disclosure.

Chapter 2: Research Methodology: This chapter includes the introduction, title of the study, sources of data, data collection, scope of the study, sample design, objectives of the study, hypothesis, analysis of data, outline of the chapter plan and limitations and future scope of the research.

Chapter 3: Analysis and Interpretation of Corporate Governance Disclosure Index: The chapter covers the analysis and interpretation of data related with the corporate governance disclosure index of selected banks including information of each bank, financial disclosures, non financial disclosures and other related information for correlation and regression analysis. This chapter also covers the hypothesis testing with the help of various statistical tools like Run Test, F test, T Test and ANOVA and conclusions drawn on the basis of the analysis.

Chapter 4: Summary, Findings and Suggestions: This chapter includes the summary of each chapter and findings of the study, conclusions drawn based on the study and at the last, suggestions for improvement in corporate governance practices.

2.13 Limitations of the Study:

The study attempted to capture the current status of the corporate governance practices in the banking sector of India. Following are the major limitations of the study:

1) This study is limited to analysis of corporate governance practices in selected 18 public sector and private sector banks from Bankex as on 31st January, 2010 only [Table 2.1].

2) It is purely based on secondary data collected from the websites and annual reports of the banks as per requirement. Information of website/information is subject to last updated by the bank.
3) Changes in board pattern after above mentioned duration or the information which is not provided by the banks till above mentioned duration are not considered here.

2.14 Future Scope of the Study:

There is a vast scope for the further research as this area needs a lot work. The same research can be enriched by using the extended parametric tests or statistical tools. Further, this study is based on the limited sample size only, so the same may be extended by comparison of corporate governance practices with other financial institutions, banks of developed countries etc.

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Chapter 3

Analysis and Interpretation of Corporate Governance Disclosure Index

CHAPTER 3

ANALYSIS & INTERPRETATION OF CORPORATE GOVERNANCE DISCLOSURE INDEX

3.1 Introduction:

> *"Corporate Governance in essentially about leadership; leadership for efficiency in order for companies to compete effectively in the global economy, and thereby create jobs; leadership for probity because investors require confidence and assurance that the management of a company will behave honestly and with integrity in regard to their shareholders and others; leadership with responsibility as companies are increasingly called upon to address legitimate social concerns relating to their activities; and , leadership that is both transparent and accountable because otherwise business leaders cannot be trusted and this will lead to the decline of companies and the ultimate demise of a country's economy."*

\- *Mervyn King, King Report on Corporate Governance for South Africa [King II Report] [Parktown, South Africa: Institute of Directors in Southern Africa, 2002] p.18*

The issue of corporate governance continues to receive a high level of attention. Valuable lessons have been learned from the series of corporate collapses that occurred in different parts of the world in the early part of this decade. In this study, researcher has selected the banks from the Bankex, recorded on 1st January 2010. Out of total 18 banks, 8 banks are from the private sector and remaining ten banks are from the public sector banks. The following issues are framed for the purpose of the empirical study:

(a) What are the structure, strength and size of selected banks' board of directors? Has the requirement of clause 49 of the Listing Agreement in respect of minimum number of independent directors in the boards been maintained?

(b) What is the position of Chairman and CEO in banks? Is the post of Chairman separated from the post of CEO/MD? How many banks did appoint a lead independent director in their boards?

(c) Did the companies disclose the retirement policy of directors including the tenure and age limit in the annual report? If so,, whether it is in line with the Provisions of Clause 49 of the Listing Agreement?

(d) How many banks have defined 'independent director', 'financial expert' and disclosed the selection criterion of board directors including independent directors?

(e) Are the disclosures of board procedures and information placed before the board? Is there a regular post meeting follow up system and compliance reporting to the board?

(f) Are there adequate disclosures of remuneration policy and remuneration of directors in the annual report? Did they fully comply with the provisions of the Clause 49 of the Listing Agreement?

(g) Did the companies disclose information about formation of statutory board committees, e.g., audit committee, share holders'/ investors' grievance committee? Is the minimum requirement of the number of independent directors and the number of audit committee meetings maintained? Was there any disclosure regarding 'charters' of these committees and the roles played by them? Is there adequate information of nature of shareholders' complaints and queries received and disposed – item wise, in the annual reports?

(h) How many companies have set up non mandatory board committees, e.g., remuneration committee, nomination committee, etc.? is there adequate disclosure of minimum requirement of the non executive directors in remuneration committee, independent directors as the chairman of remuneration committee? Is there disclosure of nomination committee charter and report of nomination committee in the annual report?

(i) Did the company comply with all disclosure norms as required by the Clause 49 of the Listing Agreement as also by the Companies Act?

(j) Are there adequate disclosure regarding stakeholders' interest and the policies on (i) Environment, Health and Safety (EHS), (ii) Human Resource Development (HRD), (iii) Corporate Social Responsibility (CSR) and (iv) Industrial Relations (IR)?

In the light of abovementioned issues, the researcher has examined the corporate governance practices followed by some selected Indian public sector as well as the private sector banks as disclosed in their annual reports for the financial years 2006-07 to 2010-11.

3.2 Sample Profile:

For the purpose of this research, researcher has selected the banks, which are considered for computing the Bombay Stock Exchange Banking Index, known as the Bankex, as on 1st January, 2010. There were total 18 banks listed on this day. The main reason of selection of these banks is that their scripts dominate and influence the stock movement of the country. Further, banks considered for the Bankex represents the major banks of the country. The list of all these banks is given below in Table 3.1

Table 3.1: Selected Banks for the Research

Sr. No.	BSE Scrip Code	Banks	PSB/PVT*
1	532480	Allahabad Bank	PSB
2	532215	Axis Bank	PVT
3	532134	Bank of Baroda	PSB
4	532149	Bank of India	PSB
5	532483	Canara Bank	PSB
6	500469	Federal Bank	PVT
7	500180	HDFC Bank	PVT
8	532174	ICICI Bank	PVT
9	500116	IDBI Bank	PSB
10	532388	Indian Overseas Bank	PSB
11	532187	IndusInd Bank	PVT
12	532652	Karnataka Bank	PVT
13	500247	Kotak Mahindra Bank	PVT
14	500315	Oriental Bank of Commerce	PSB
15	532461	Punjab National Bank	PSB
16	500112	State Bank of India	PSB
17	532477	Union Bank of India	PSB
18	532648	Yes Bank	PVT

Table 3.1 shows the banks selected for this study by the researcher. First column shows the total number of banks, which are 18 followed by the second column which shows the BSE Scrip Code for each bank. The third column shows the

names of the banks and last columns shows the bank is from public sector [PSB] or private sector [PVT]. The list is arranged alphabetically. For the purpose of the brief profile of each selected banks including the performance parameters, the banks are divided in two groups: Public Sector Banks and Private Sector Banks.

Table 3.2: List of Group I Banks [PSBs]

Sr. No.	BSE Scrip Code	Banks
1	532480	Allahabad Bank
2	532134	Bank of Baroda
3	532149	Bank of India
4	532483	Canara Bank
5	500116	IDBI Bank
6	532388	Indian Overseas Bank
7	500315	Oriental Bank of Commerce
8	532461	Punjab National Bank
9	500112	State Bank of India
10	532477	Union Bank of India

Table 3.2 shows the list of Group I banks which are public sector banks, which contains total 10 banks. Out of the total sample size, majority is from the public sector banks [55.56%]. The list is arranged alphabetically.

Table 3.3: List of Group II Banks [PVTs]

Sr. No.	BSE Scrip Code	Banks
1	532215	Axis Bank
2	500469	Federal Bank
3	500180	HDFC Bank
4	532174	ICICI Bank
5	532187	IndusInd Bank
6	532652	Karnataka Bank
7	500247	Kotak Mahindra Bank
8	532648	Yes Bank

Table 3.3 shows the list of Group II banks which are private sector banks, which contains total 8 banks. Out of the total sample size, banks from the private sector banks are 44.44%. The list is arranged alphabetically. Detailed profile of banks in each group is as under:

3.2.1: Sample Profile of Group I Banks:

3.2.1.1 Allahabad Bank

ALLAHABAD BANK
(A Govt. of India Undertaking)
A tradition of trust

Head Office: 2, Netaji Subhash Road, Kolkata – 700 001

The Oldest Joint Stock Bank of the Country, Allahabad Bank was founded on April 24, 1865 by a group of Europeans at Allahabad. Thus, the History of the Bank spread over three Centuries - Nineteenth, Twentieth and Twenty-First. On 19th July, 1969, the bank was nationalized along with 13 other banks, with total branches – 151, total deposits - Rs.119 crores and total advances - Rs.82 crores. In October 1989, United Industrial Bank Ltd. merged with Allahabad Bank. In October 2002, the Bank came out with Initial Public Offer (IPO), of 10 crores share of face value Rs.10 each, reducing Government shareholding to 71.16%. In April 2005, follow on Public Offer (FPO) of 10 crores equity shares of face value Rs.10 each with a premium of Rs.72, reducing Government shareholding to 55.23%. In June 2006, the Bank transcended beyond the national boundary, opening representative office at Shenzen, China and in February 2007, the Bank opened its first overseas branch at Hong Kong. Today, the bank has network of total 2,261 branches in India, 1 branch overseas (Hong Kong), 21,227 employees and total 316 ATMs in the country[LXXVIII].

Ownership Pattern and Performance Chart:

Figure 3.1 shows the ownership pattern chart of Allahabad Bank. Being a nationalized bank, central Government has the maximum ownership. The portion of FII is continuous fluctuating throughout the period. The portion of DII is partially increasing. The public is also having the share that is also fluctuating. The least share is with the corporate.

Figure 3.1: Ownership Pattern of Allahabad Bank

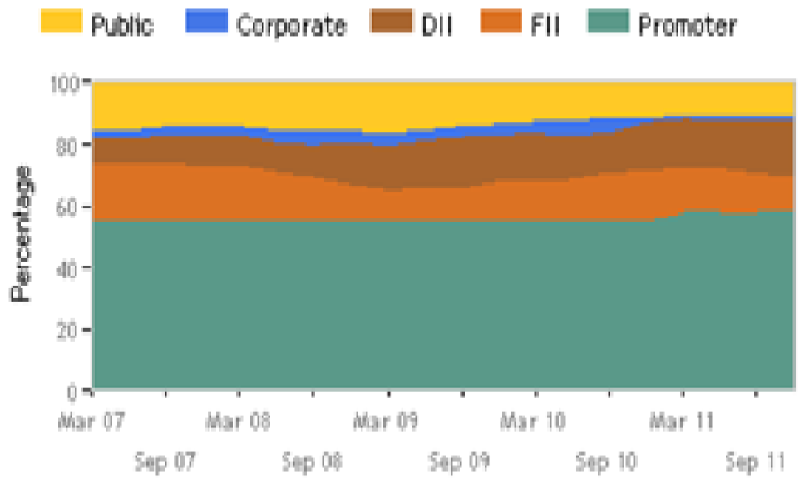


Figure 3.2: Performance Chart of Allahabad Bank

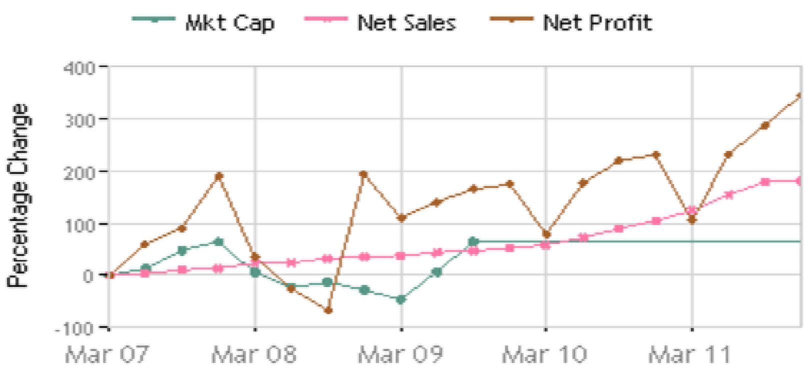


Figure 3.2 shows the performance of Allahabad Bank for last five years. As per the chart, net sales of the bank is continuously increased. Whereas increase in the net profit shows large fluctuations. The market capitalization of the bank was fluctuating for first three years, but after that it is constant.

3.2.1.2 Bank of Baroda

Head Office: Baroda House, Mandavi, Vadodara 390 006

Bank of Baroda, a leading Indian public sector bank was established on 20th July, 1908, under the Companies Act of 1897, and with a paid up capital of Rs. 10

lakhs by visionary king of Vadodara, Maharaja Sayajirao Gaekwad. The Bank was nationalized on 19th July 1969, along with 13 other major commercial banks, by Government of India. Even after nationalization, the Bank conquered the unique heights at various levels. Today Bank of Baroda is known as India's International Bank with presence in 25 countries and 45 branches, which includes subsidiaries in 8 countries, representative office in two countries and joint venture in 1 country. In India, the bank has 3,088 branches with 39,385 employees.[LXXIX]

Ownership Pattern and Performance Chart:

Figure 3.3 shows the ownership pattern of the Bank of Baroda. The maximum portion is hold by the central Government. Next to that, FIIs and DIIs have considerable share which is fluctuating throughout the period. Corporate have the least share but it is gradually increasing. The portion with the public is also fluctuating.

Figure 3.3: Ownership Pattern of Bank of Baroda

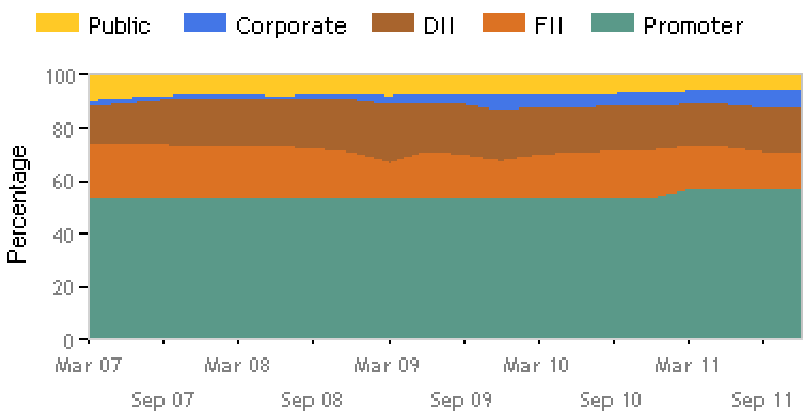


Figure 3.4: Performance Chart of Bank of Baroda

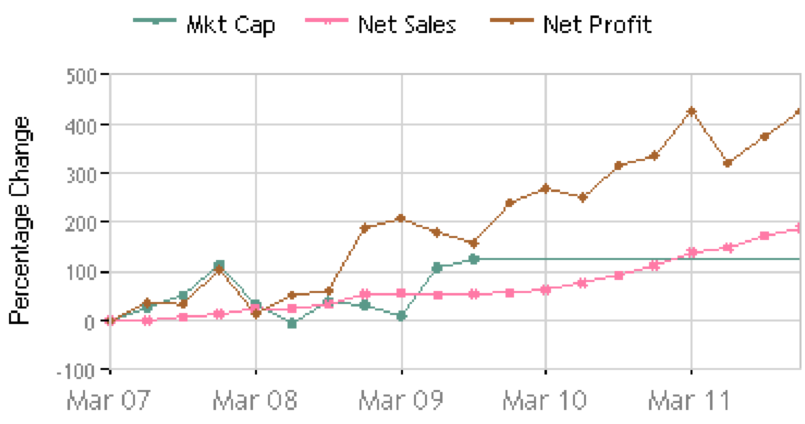


Figure 3.4 shows the performance of Bank of Baroda for throughout the period. Net sales of the bank is continuously increasing. The net profit of the bank has also vast changes but it growth is very fast. Market capitalization is fluctuating initially but after that it is stable.

3.2.1.3 Bank of India

Head Office: Star House, C-5,'G' Block, Bandra-Kurla Complex,

Bandra (E), Mumbai – 400 051

Bank of India was founded on 7th September, 1906 by a group of eminent businessmen with a paid up capital of Rs. 50 lakhs and 50 employees in Mumbai. The bank was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. After successful journey of 106 years, the Bank has made a rapid growth over the years and blossomed into a mighty institution with a strong national presence and sizable international operations. Today, the Bank has 3,752 branches in India and there are 29 branches/ offices [including five representative offices] and 3 subsidiaries and 1 joint venture abroad[LXXX].

Ownership Patter and Performance Chart:

Figure 3.5: Ownership Patter of Bank of India:

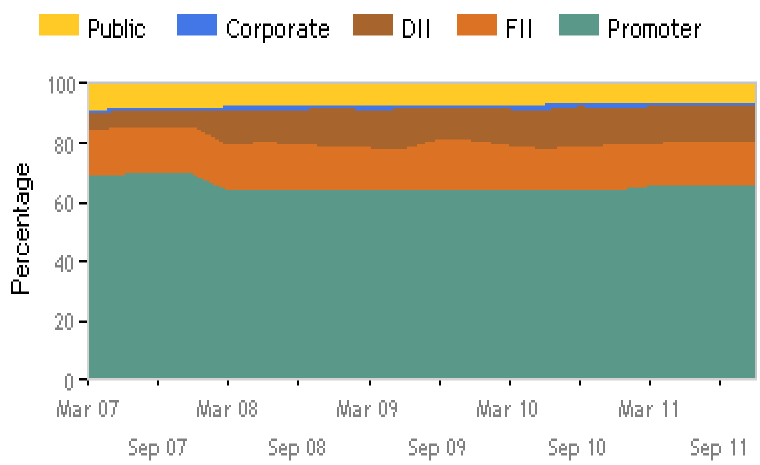


Figure 3.5 shows the ownership pattern of Bank of India. Being a nationalized bank, maximum portion is held by the central Government, followed by FIIs and DIIs. The share of FIIs is constant whereas share of DIIs increased during the period. Corporate have the least share and public share is also looking stable without any major fluctuations.

Figure 3.6: Performance Chart of Bank of India

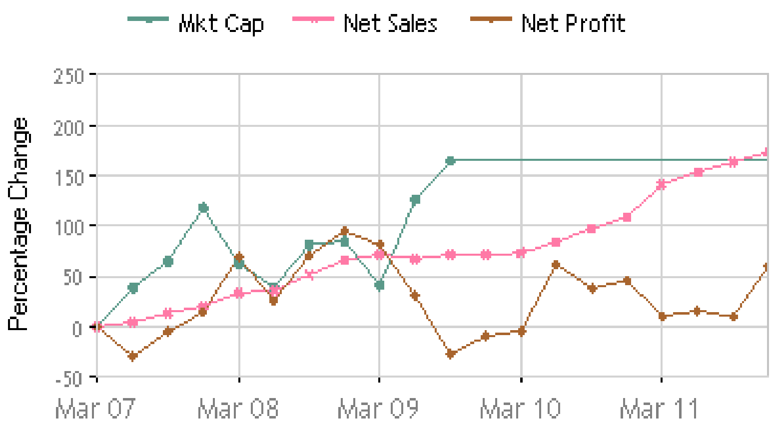


Figure 3.6 shows the performance chart of Bank of India. As per the chart, net sales of the bank is increasing gradually. There are drastically changes in the net profit, which is not stable but highly fluctuating. Market capitalization of the bank is fluctuating initially but after that it seems stable.

3.2.1.4 Canara Bank

केनरा बैंक Canara Bank Together We Can

Head Office: 112, J.C. Road, Bangalore. 560 002

Canara Bank was founded by Shri Ammembal Subba Rao Pai, in July 1906 at Mangalore. The Bank was nationalized in 1969. As at June 2010, the Bank has 3,057 branches and 2000 ATMs covering 732 centers, 2,681 branches providing internet and mobile banking services and 2091 branches offering ‘Anywhere Banking’ services. Not just in commercial banking, the Bank has also carved a distinctive mark in various corporate social responsibilities and spearheading financial inclusion objective[LXXXI].

Ownership Pattern and Performance Chart:

Figure 3.7: Ownership Pattern of Canara Bank

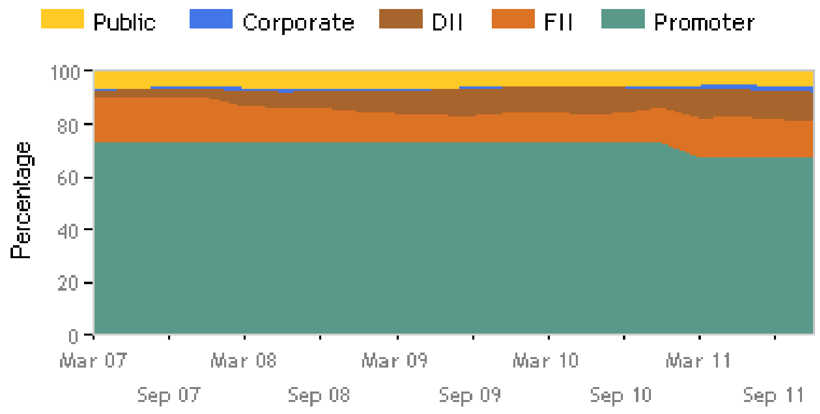


Figure 3.8: Performance Chart of Canara Bank

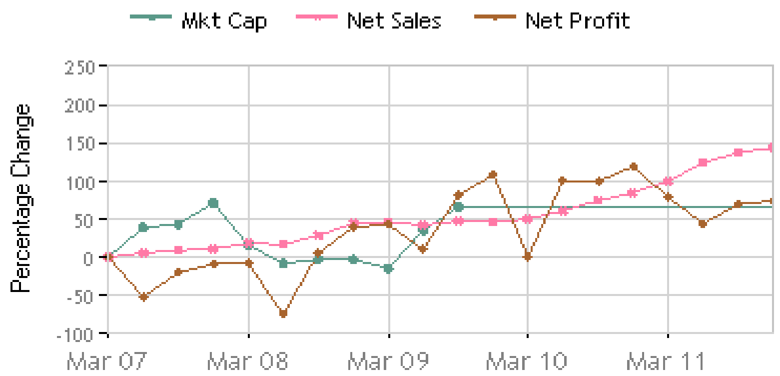


Figure 3.8 shows the performance chart of Canara Bank. As per the chart, net sales of the bank is continuously increasing for throughout the period. Same way, net profit is also increasing, but highly fluctuations are seems. The market capitalization is not stable initially but after that it seems stable.

3.2.1.5 IDBI Bank:

Head Office: IDBI Tower, WTC Complex, Cuffe Parade, Mumbai 400 005

Industrial Development Bank of India (IDBI) was constituted under Industrial Development Bank of India Act, 1964 as a Development Financial Institution and came into being as on July 01, 1964 vide GoI Notification Dated June 22, 1964. It was regarded as a Public Financial Institution in terms of the provisions of Section 4A of the Companies Act, 1956. It continued to serve as DFI for 40 years till the year 2004, when it was transformed into a Bank. In response to the felt need and on commercial prudence, it was decided to transform IDBI into a Bank. For the purpose, Industrial Development bank (transfer of undertaking and Repeal) Act, 2003 [Repeal Act] was passed repealing the Industrial Development Bank of India Act, 1964. In terms of the provisions of the Repeal Act, a new company under the name of Industrial Development Bank of India Limited (IDBI Ltd.) was incorporated as a Govt. Company under the Companies Act, 1956 on September 27, 2004. Thereafter, the undertaking of IDBI was transferred to and vested in IDBI Ltd. with effect from the effective date of October 01, 2004. In terms of the provisions of the Repeal Act, IDBI Ltd. has been functioning as a Bank in addition to its earlier role of a Financial Institution[LXXXII].

Today, IDBI Bank Ltd. is a Universal Bank with its operations driven by a cutting edge core Banking IT platform. The Bank offers personalized banking and financial solutions to its clients in the retail and corporate banking arena through its large network of 951 Branches and 1,529 ATMs, spread across length and breadth of India. The Bank also has an overseas branch at Dubai.

Ownership Pattern and Performance Chart:

Figure 3.9: Ownership Pattern of IDBI Bank

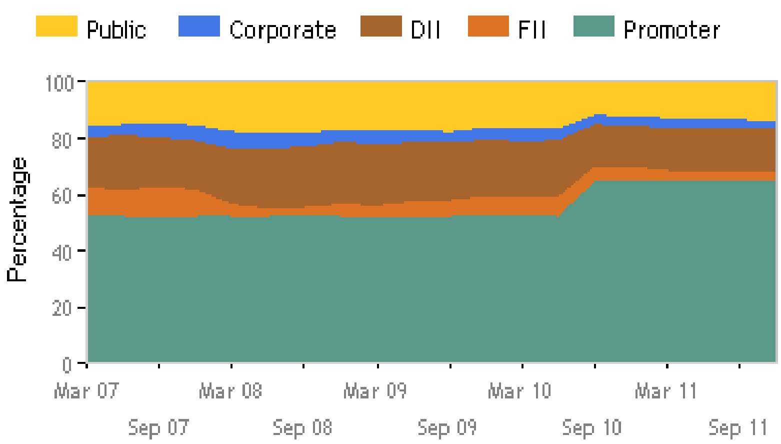


Figure 3.9 shows the ownership pattern of IDBI Bank. Central Government has the maximum portion followed by the DIIs and Public. FIIs and corporate have comparatively low portion in the bank.

Figure 3.10: Performance Chart of IDBI Bank

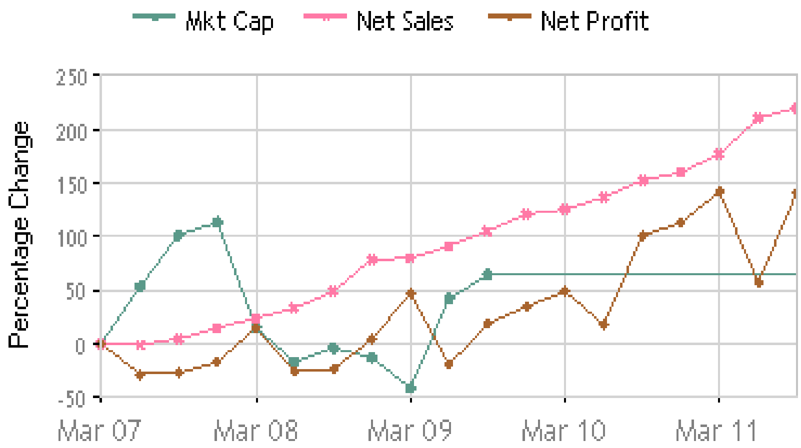


Figure 3.10 shows the performance chart of IDBI Bank. For the years, net sales of the bank is highly increased. Following it, net profit is also increased but with some fluctuations. Market capitalization of the bank is highly fluctuating initially but after that it is stable.

3.2.1.6 Indian Overseas Bank:

Head Office: 763, Anna Salai, Chennai – 600 002

Indian Overseas Bank (IOB) was founded on February 10th 1937, by Shri.M.Ct.M. Chidambaram Chettyar, a pioneer in many fields - Banking, Insurance and Industry with the twin objectives of specialising in foreign exchange business and overseas banking. The Bank was nationalized in 1969, and on the eve of nationalization, IOB had 195 branches in India with aggregate deposits of Rs. 67.70 Crs. and Advances of Rs. 44.90 Crs. Today, the Bank has network of 2,022 branches in India, 6 branches overseas with total 25,626 employees[LXXXIII].

Ownership Pattern and Performance Chart:

Figure 3.11 shows the ownership pattern of Indian Overseas Bank. Maximum portion is with the central Government followed by public. FIIs have considerable share initially but that is gradually decreasing and that portion is gone to DIIs. Corporate has the least share in the bank but yet it is increasing.

Figure 3.11: Ownership Pattern of Indian Overseas Bank

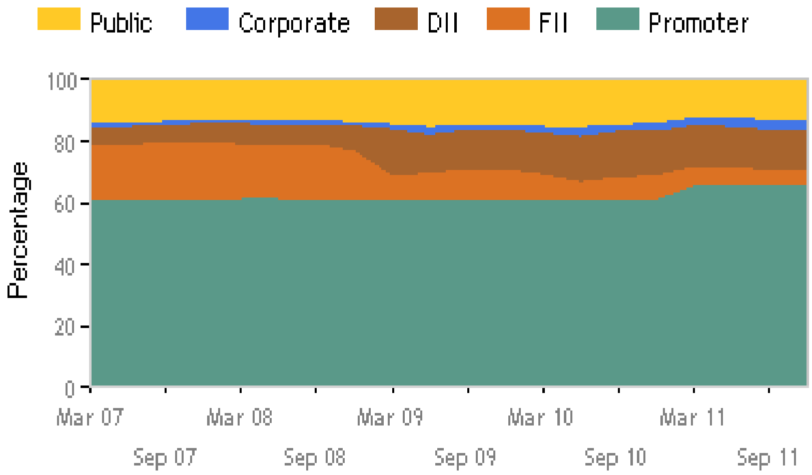


Figure 3.12: Performance Chart of Indian Overseas Bank

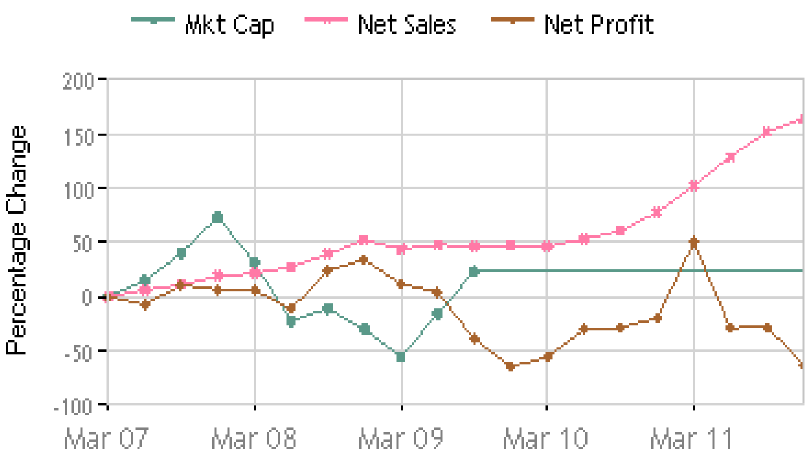


Table 3.12 shows the performance chart of Indian Overseas Bank. As per the chart, net sales of the bank is growing slowly initially, but there is fast growth after March 2010. But on the other hand, such type of growth is not recorded in net profit. Profit is gradually decreasing. There are vast changes in the market capitalization of the bank initially, but then it is stable.

3.2.1.7 Oriental Bank of Commerce:

Oriental Bank of Commerce, established on 19 February, 1943, in Lahore (then a city of British India, and currently in Pakistan), is one of the public sector banks in India.

Oriental Bank of Commerce
(A Government of India Undertaking)
Where every individual is committed

Head Office: Harsha Bhawan, E-Block, Connaught Place, New Delhi - 110001

Oriental Bank of Commerce made a modest beginning under its Founding Father, Late Rai Bahadur Lala Sohan Lal, the first Chairman of the Bank. Within four years of coming into existence, the Bank had to face the holocaust of partition. Branches in the newly formed Pakistan had to be closed down and the Registered Office had to be shifted from Lahore to Amritsar. Late lala Karam Chand Thapar, the then Chairman of the Bank, in a unique gesture honored the commitments made to the depositors from Pakistan and paid every rupee to its departing customers. The bank was nationalized on 15th April, 1980. At that time total working of the bank was Rs.483 crores having 19th position among the 20 nationalized banks. Within a decade the bank turned into one of the most efficient and best performing banks of India. Today, the Bank has a network of 1,530 branches and 16,618 employees[LXXXIV].

Ownership Pattern and Performance Chart:

Figure 3.13: Ownership Structure of Oriental Bank of Commerce

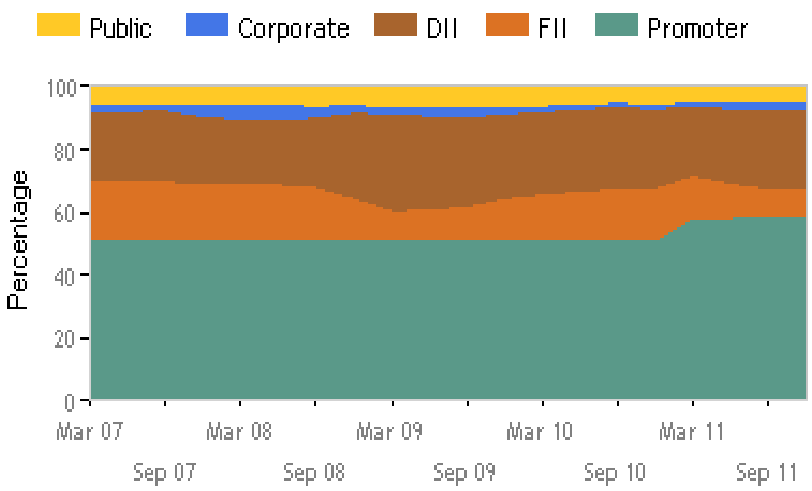


Figure 3.13 shows the ownership structure of Oriental Bank of Commerce. The maximum share is owned by the central Government. Second highest portion is owned by the DIIs followed by FIIs. Share of FIIs is reducing gradually. The public shareholding is comparatively very lower and shareholding by corporate is least.

Figure 3.14: Performance Chart of Oriental Bank of Commerce

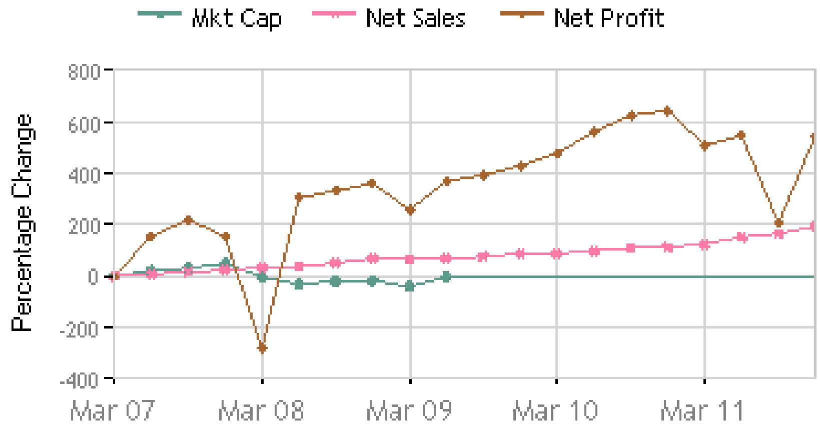


Figure 3.14 shows the performance chart of Oriental Bank of Commerce. As per the chart, net sales of the bank is slowly increasing. With compare to the sales, net profit is increasing rapidly but with vast fluctuations. Market capitalization of the bank is very stable throughout the year.

3.2.1.8 Punjab National Bank

Head Office: 7, Bhikhaji Kama Place, New Delhi – 110 607

Punjab National Bank was incorporated in 1895 in Lahore. It was sole bank that had started its operations with Indian money. Along with 13 other banks, Punjab National Bank was nationalized in July 1969. It provides a wide variety of financial products and services to a vast client base across India. At present, total client count of Punjab National Bank is around 35 million. It has 4540 offices, which include 421 extension counters. It is regarded as having potential to challenge blue chip companies in future[LXXXV].

Ownership Pattern and Performance Chart:

Figure 3.15 shows the ownership pattern of Punjab National Bank. Central Government has the highest portion in the bank and that is very stable throughout the years, followed by FIIs and DIIs. There is a gradually increase in the share of DIIs.

Comparatively public has less portion and corporate has nominal shareholding in the bank.

Figure 3.15: Ownership Pattern of Punjab National Bank

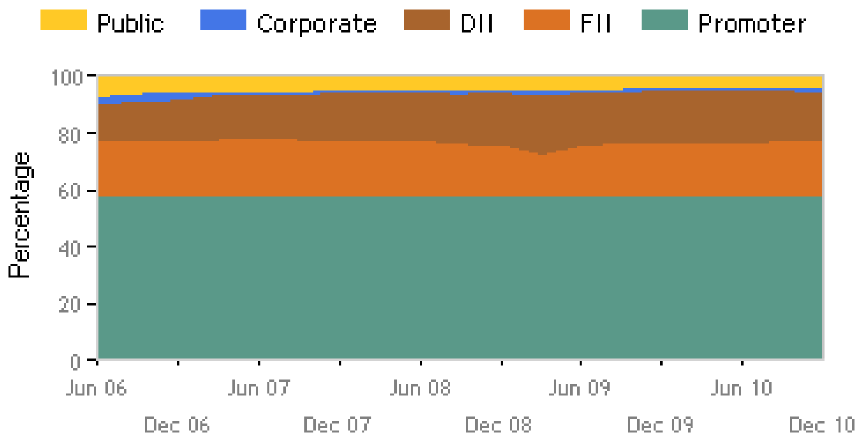


Figure 3.16: Performance Chart of Punjab National Bank

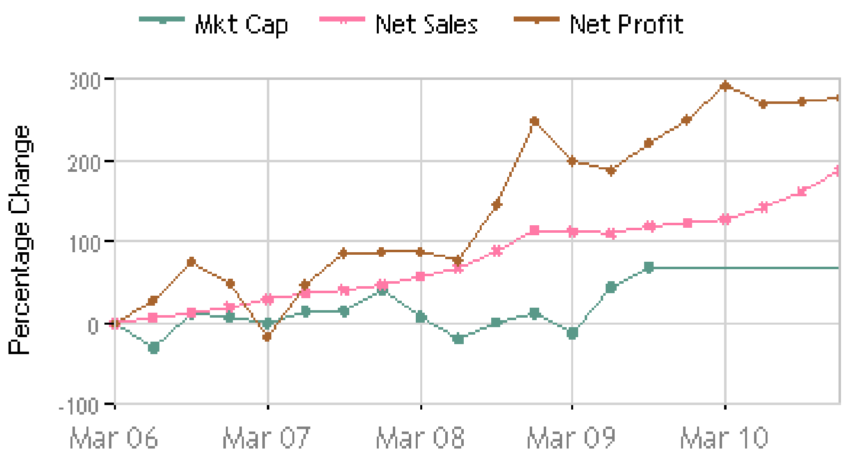


Figure 3.16 shows the performance chart of Punjab National Bank. As per the chart, net sales of the bank is continuously increasing along with the net profit. Market capitalization in fluctuating in initial years but after that it is stable.

3.2.1.9 State Bank of India

Head Office: Central Office, Mumbai 400 021.

The origin of the **State Bank of India** goes back to the first decade of the nineteenth century with the establishment of the Bank of Calcutta in Calcutta on 2 June 1806. Three years later the bank received its charter and was re-designed as the Bank of Bengal (2 January 1809). A unique institution, it was the first joint-stock bank of British India sponsored by the Government of Bengal. The Bank of Bombay (15 April 1840) and the Bank of Madras (1 July 1843) followed the Bank of Bengal. These three banks remained at the apex of modern banking in India till their amalgamation as the Imperial Bank of India on 27 January 1921.

The Imperial Bank during the three and a half decades of its existence recorded an impressive growth in terms of offices, reserves, deposits, investments and advances, the increases in some cases amounting to more than six-fold. When India attained freedom, the Imperial Bank had a capital base (including reserves) of Rs.11.85 crores, deposits and advances of Rs.275.14 crores and Rs.72.94 crores respectively and a network of 172 branches and more than 200 sub offices extending all over the country. When India attained freedom, the Imperial Bank had a capital base (including reserves) of Rs.11.85 crores, deposits and advances of Rs.275.14 crores and Rs.72.94 crores respectively and a network of 172 branches and more than 200 sub offices extending all over the country.

In 1951, when the First Five Year Plan was launched, the development of rural India was given the highest priority. The commercial banks of the country including the Imperial Bank of India had till then confined their operations to the urban sector and were not equipped to respond to the emergent needs of economic regeneration of the rural areas. In order, therefore, to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank by taking over the Imperial Bank of India, and integrating with it, the former state-owned or state-associate banks. An act was accordingly passed in Parliament in May 1955 and the State Bank of India was constituted on 1 July 1955. The State Bank of India was thus born with a new sense of social purpose aided by the 480 offices comprising branches, sub offices and three Local Head Offices inherited from the Imperial Bank.

Today, the State Bank of India, the country's oldest Bank and a premier in terms of balance sheet size, number of branches, market capitalization and profits is today going through a momentous phase of Change and Transformation – the two hundred year old Public sector behemoth is today stirring out of its Public Sector legacy and moving with an ability to give the Private and Foreign Banks a run for their money[LXXXVI].

Ownership Pattern and Performance Chart:

Figure 3.17: Ownership Structure of State Bank of India

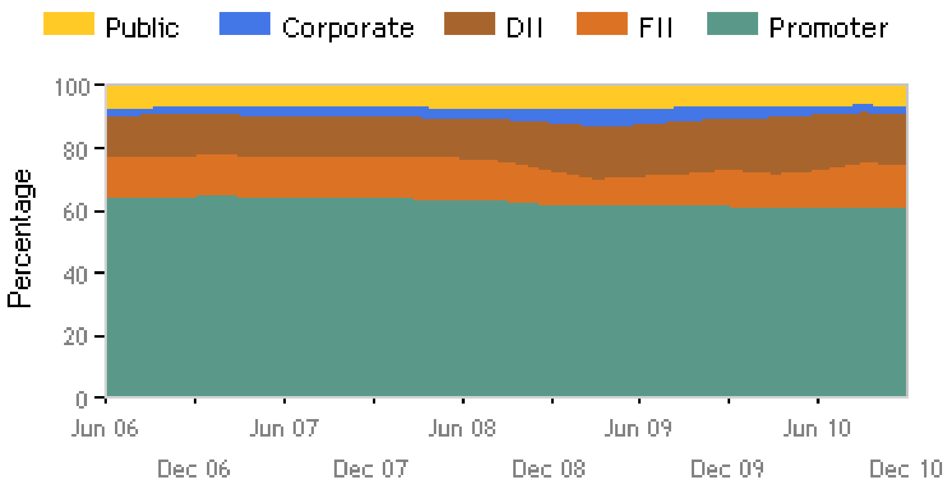


Figure 3.17 shows the Ownership Structure of India's largest bank State Bank of India. Majority of the ownership is with central Government followed by FIIs and DIIs. Public has comparatively lower portion and corporate has the least portion in the ownership of the bank.

Figure 3.18: Performance Chart of State Bank of India

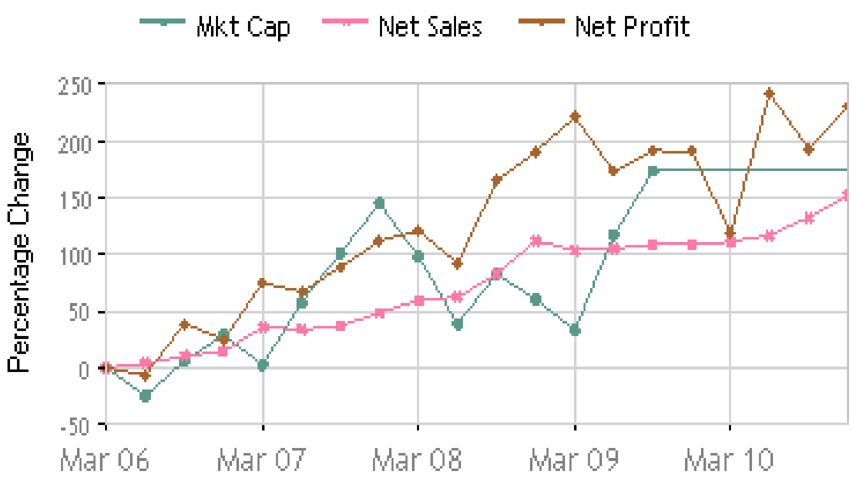


Figure 3.18 shows the performance chart of State Bank of India. As per the chart, net sales of the bank are increasing very fast along with the net profit. But there are large fluctuations in the net profit. Market capitalization of the bank is also highly fluctuating and increasing rapidly, after that it stabled.

3.2.1.10 Union Bank of India

Head Office: Union Bank Bhavan, 239, Vidhan Bhavan Marg, Nariman Point, Mumbai – 400 021.

Union Bank of India was established on 11th November 1919 with its headquarters in the city of Bombay. The Head Office building of the Bank in Mumbai was inaugurated by Mahatma Gandhi, the Father of the nation in the year 1921. His prescient words anticipated the growth of the bank that has taken place in the decades that followed. The Bank now operates through over 2800 branches across the country. The Bank's core values of prudent management without ignoring opportunities is reflected in the fact that the Bank has shown uninterrupted profit during all 90 years of its operations[LXXXVII].

Ownership Pattern and Performance Chart:

Figure 3.19: Ownership Pattern of Union Bank of India

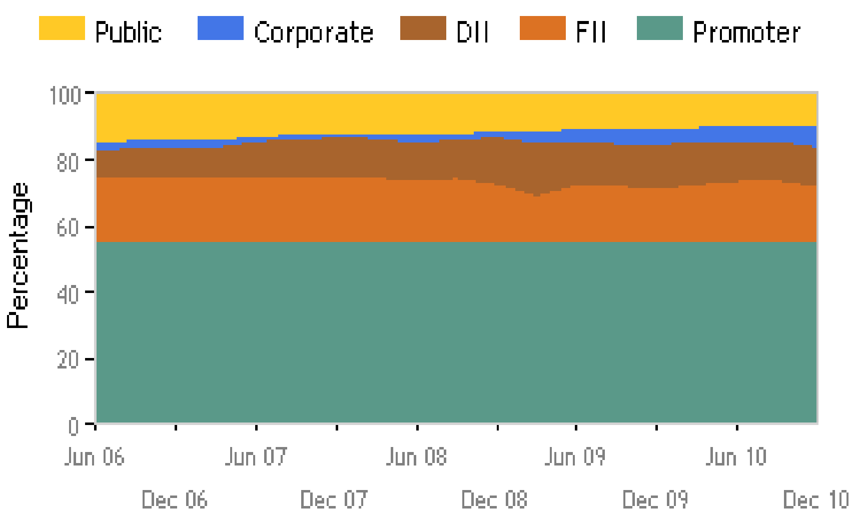


Figure 3.19 shows the ownership pattern of Union Bank of India. The share of central Government is highest and stable throughout the years, followed by FIIs and DIIs. Slight fluctuations are there in the share of FIIs and DIIs. Share of public is gradually reducing. Share of corporate is least but is slowly increasing.

Figure 3.20: Performance Chart of Union Bank of India

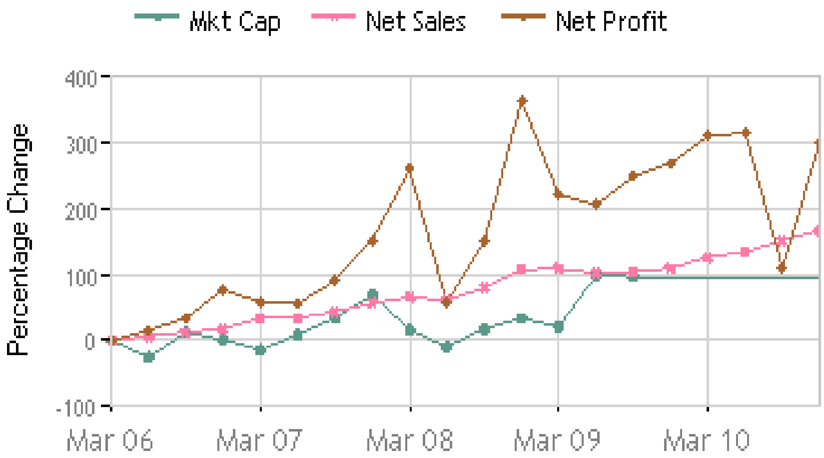


Figure 3.20 shows the performance chart of Union Bank of India. As per the chart, there is a continuous gradual growth in net sales. Growth is also there in net profit but with vast fluctuations. Market capitalization is initially lower and fluctuating which is stable after.

3.2.2 Sample Profile of Group II Banks

3.2.2.1 Axis Bank

Head Office: Axis House, Bombay Dying Mills Compound, Pandurang Budhkar Marg, Worli, Mumbai - 400025

Axis Bank was the first of the new private banks to have begun operations in 1994, after the Government of India allowed new private banks to be established. The Bank was promoted jointly by the Administrator of the specified undertaking of the Unit Trust of India (UTI - I), Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC) and other four PSU insurance companies, i.e.

National Insurance Company Ltd., The New India Assurance Company Ltd., The Oriental Insurance Company Ltd. and United India Insurance Company Ltd.

The Bank's Registered Office is at Ahmedabad and its Central Office is located at Mumbai. The Bank has a very wide network of more than 1281 branches (including 169 Service Branches/CPCs as on 31st March, 2011). The Bank has a network of over 7591 ATMs (as on 30th September, 2011) providing 24 hrs a day banking convenience to its customers. This is one of the largest ATM networks in the country[LXXXVIII].

Ownership Pattern and Performance Chart:

Figure 3.21 shows the ownership pattern of Axis Bank. Being a private sector bank, the maximum portion is with the promoters of the bank and second highest portion is with the FIIs. Remaining three categories of investors – DIIs, Corporate and public have comparatively less portion.

Figure 3.21: Ownership Pattern of Axis Bank

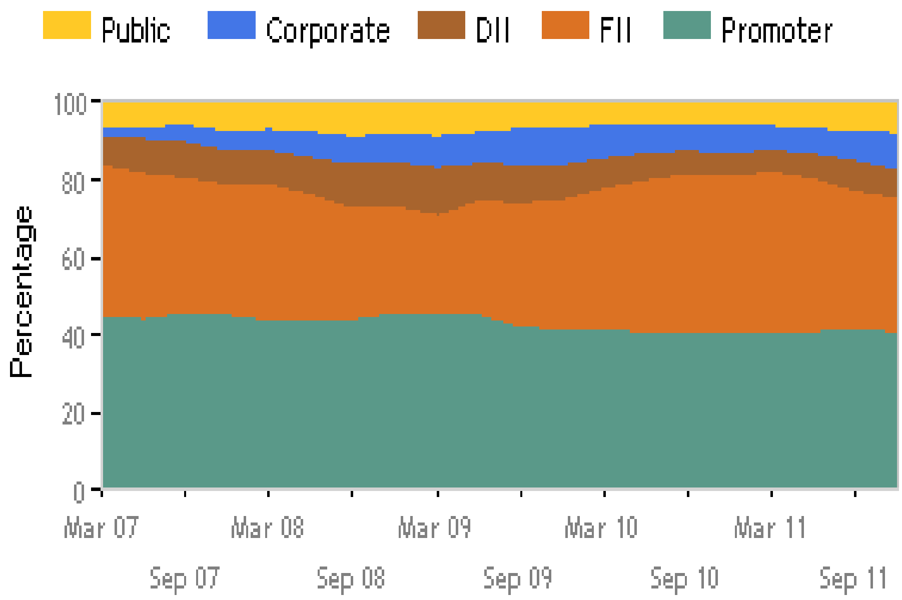
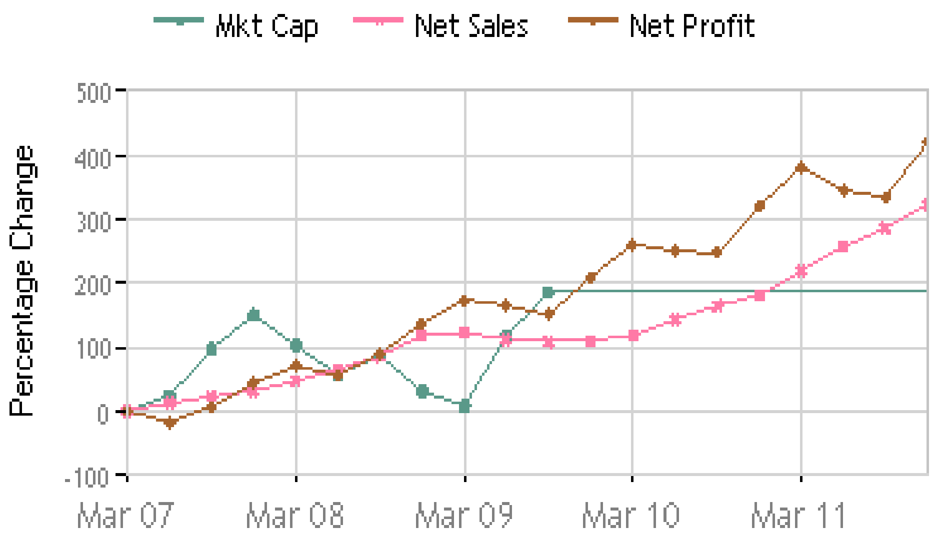


Figure 3.22 shows the performance chart of Axis Bank. Performance of Axis Bank is very sound as its clear from the chart. Net sales of the bank is increased rapidly for the period and the same way, net profit also has grown rapidly. Market capitalization has reported fluctuations initially but after that it seems stable.

Figure 3.22: Performance Chart of Axis Bank



3.2.2.2 Federal Bank

FEDERAL BANK
YOUR PERFECT BANKING PARTNER

Head Office: Secretarial Department, PB No. 103, Federal Towers, Aluva, Kerala 683 101

The history of Federal Bank dates back to the pre-independence era. Though initially it was known as the Travancore Federal Bank, it gradually transformed into a full-fledged bank under the able leadership of its Founder, Mr. K P Hormis. The name Federal Bank Limited was officially announced in the year 1947 with its headquarters nestled on the banks on the river Periyar. Since then there has been no looking back and the bank has become one of the strongest and most stable banks in the country. Today, the Bank is the fourth largest bank in the India[LXXXIX].

Ownership Pattern and Performance Chart:

Being an old private sector bank of India, as per the figure 3.23, maximum portion of ownership is with the FIIs. Second highest share is with the public, but it is gradually decreasing. DIIs also have considerable share. Portion of corporate is very low in beginning but after that it is increasing.

Figure 3.23: Ownership Pattern of Federal Bank

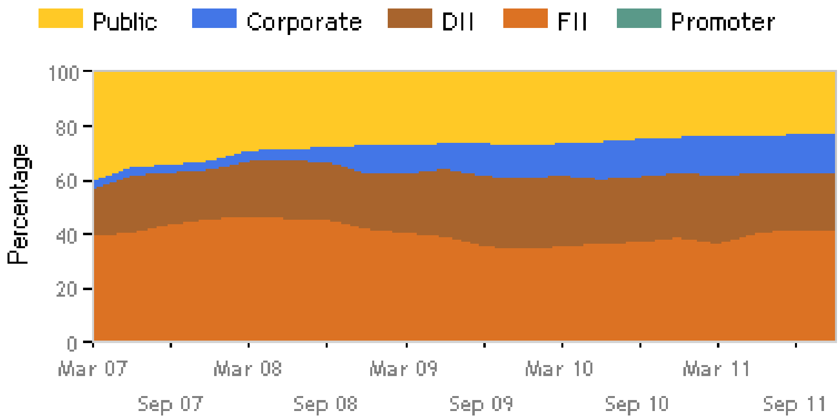


Figure 3.24: Performance Chart of Federal Bank

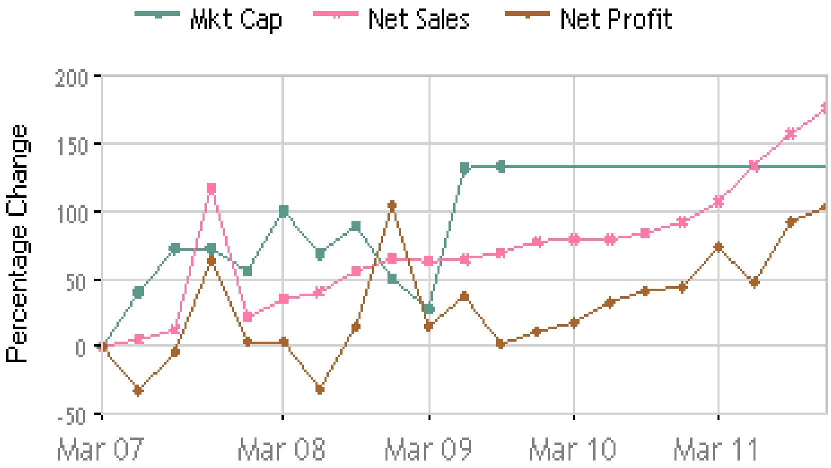


Figure 3.24 shows the performance of Federal Bank for the period of five year. The performance of bank seems sound on the basis of net sales as it is continuously increasing. But there are vast fluctuations are reported in net profit and is below the line of net sales. Market capitalization of the bank is also seems fluctuating in initial period but after that it is stable.

3.2.2.3 HDFC Bank

Head Office: HDFC Bank House, Senapati Bapat Marg, Lower Parle (W), Mumbai 400013

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. HDFC Bank is headquartered in Mumbai. The Bank at present has an enviable network of 2,201 branches spread in 1,174 cities across India. All branches are linked on an online real-time basis. Customers in over 800 locations are also serviced through Telephone Banking. The Bank also has 7,346 networked ATMs across these cities[XC].

Ownership Pattern and Performance Chart:

Figure 3.25: Ownership Pattern of HDFC Bank

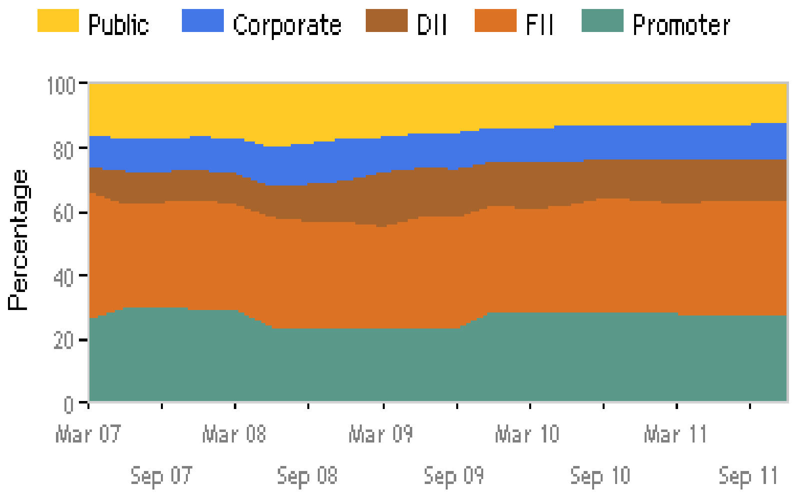
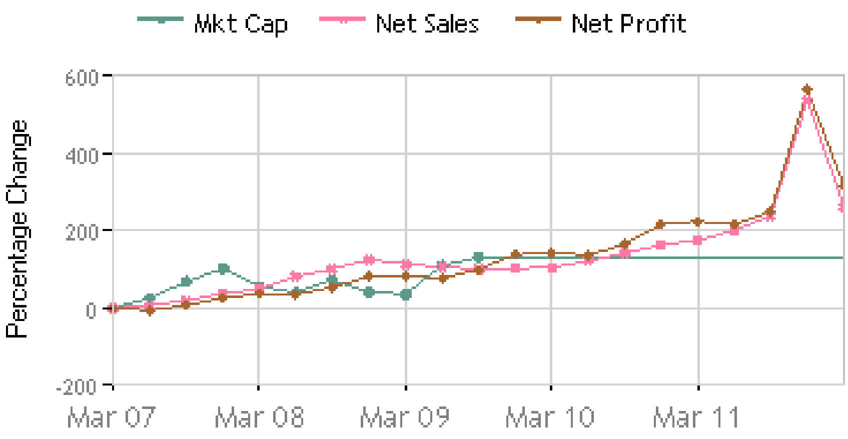


Figure 3.25 shows the ownership pattern of HDFC Bank. The maximum ownership of the bank is with the FIIs followed by the promoters of the bank. Remaining three categories of investors – DIIs, Corporate and Public have comparatively less portion. The least portion is wit the DIIs.

Performance of the HDFC Bank is growing stable and gradually. Net sales and net profit lines are almost growing together with slight fluctuations. Whereas market capitalization seems fluctuating initially and then it is stable.

Figure 3.26: Performance Chart of HDFC Bank



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3.2.2.4 ICICI Bank

ICICI Bank

Head Office: ICICI Bank Towers, Bandra-Kurla Complex, Mumbai 400051.

ICICI Bank started as a wholly owned subsidiary of ICICI Limited, an Indian financial institution, in 1994. With a change in the corporate structure and the budding competition in the Indian Banking industry, the management of both ICICI and ICICI Bank were of the opinion that a merger between the two entities would prove to be an essential step. It was in 2001 that the Boards of Directors of ICICI and ICICI Bank sanctioned the amalgamation of ICICI and two of its wholly-owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. In the following year, the merger was approved by its shareholders, the High Court of Gujarat at Ahmedabad as well as the High Court of Judicature at Mumbai and the Reserve Bank of India.

Today, ICICI Bank is India's second-largest bank with total assets of Rs. 4,062.34 billion (US$ 91 billion) at March 31, 2011 and profit after tax Rs. 51.51 billion (US$ 1,155 million) for the year ended March 31, 2011. The Bank has a network of 2,586 branches and about 8,003 ATMs in India, and has a presence in 19 countries, including India[XCI].

Ownership Pattern and Performance Chart:

Figure 3.27: Ownership Pattern of ICICI Bank

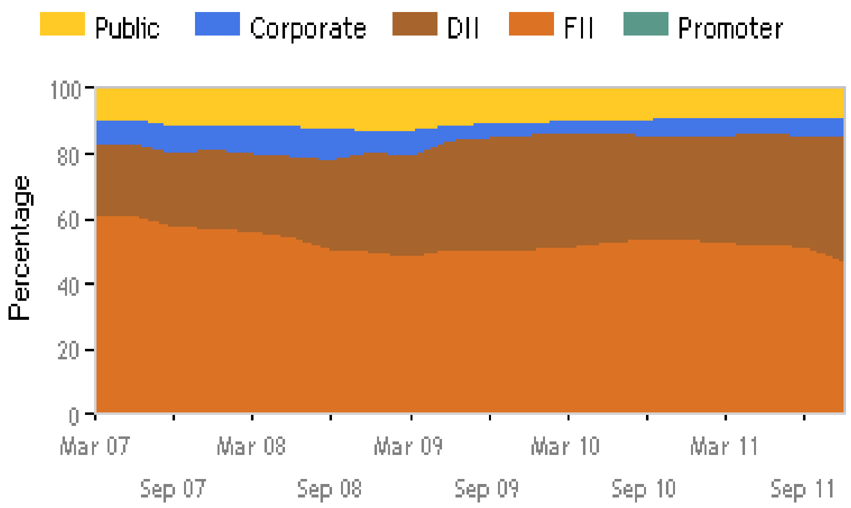
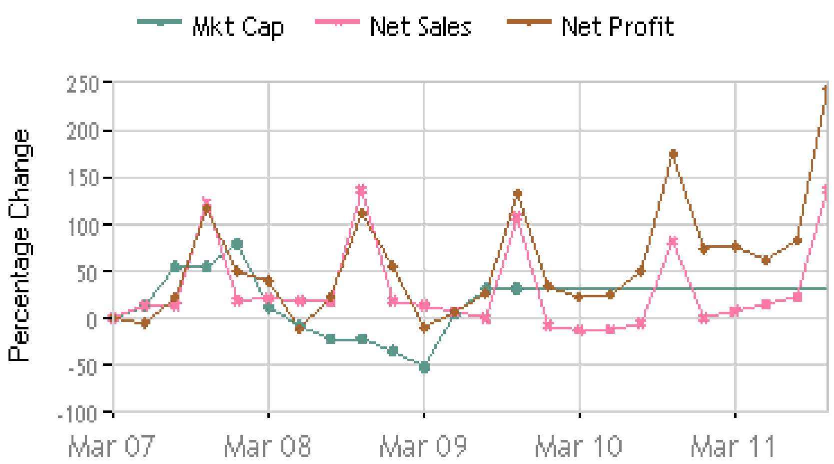


Figure 3.27 shows the ownership pattern of ICICI Bank. The maximum ownership of the bank is with FIIs followed by DIIs. Public and corporate have comparatively lower portion of ownership. The least portion of ownership is with the corporate which is fluctuating also.

Figure 3.28: Performance Chart of ICICI Bank



Performance chart of ICICI Bank is highly fluctuating like roller costar. Net sales and net profit lines seem together but there are vast fluctuations for each year. Though line of net profit is above the net sales which show the good profitability of bank. Whereas in market capitalization, fluctuations are there in initial stage but after that it looks stable.

3.2.2.5 IndusInd Bank

Head Office: 8th Floor, Tower 1, One Indiabulls Centre, 841, Senapati Bapat Marg, Elphinstone Road (W), Mumbai 400013

IndusInd Bank derives its name and inspiration from the Indus Valley civilization -a culture described by National Geographic as 'one of the greatest of the ancient world' combining a spirit of innovation with sound business and trade practices. Mr. Srichand P. Hinduja, a leading Non-Resident Indian businessman and head of the Hinduja Group, conceived the vision of IndusInd Bank -the first of the new-generation private banks in India -and through collective contributions from the NRI community towards India's economic and social development, brought our Bank into being.

The Bank, formally inaugurated in April 1994 by Dr. Manmohan Singh, Honourable Prime Minister of India who was then the country's Finance Minister, started with a capital base of Rs.1,000 million (USD 32 million at the prevailing exchange rate), of which Rs.600 million was raised through private placement from Indian Residents while the balance Rs.400 million (USD 13 million) was contributed by Non-Resident Indians[XCII].

Ownership Pattern and Performance Chart:

Figure 3.29: Ownership Pattern of IndusInd Bank

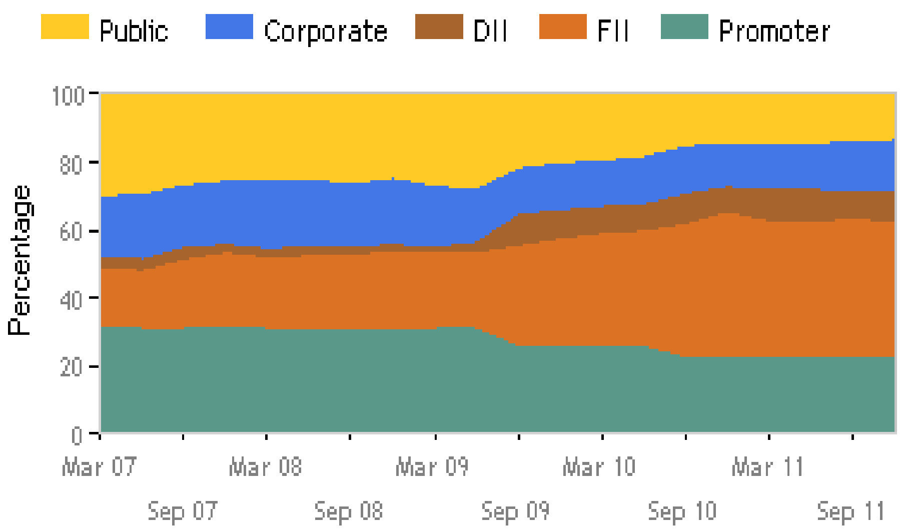


Figure 3.29 shows the ownership pattern of IndusInd Bank. As per the chart, the portion of promoters was highest initially but it is falling gradually and it goes to FIIs, which has fewer shares initially and is now increasing rapidly with the highest share. Portion of public is also reduced considerably. Corporate have maintained their portion with slight fluctuations. The least share is with the DIIs which have increased in last years.

Figure 3.30: Performance Chart of IndusInd Bank

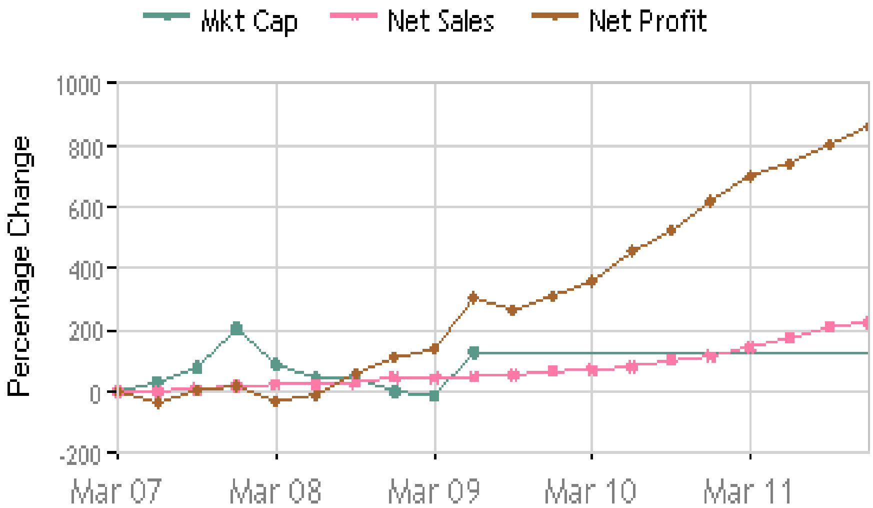


Figure 3.30 shows the performance chart of IndusInd Bank. As per the chart, net sales of the company is growing slightly but company has increased net profit vary rapidly with compare to net sales. Market capitalization reported slight fluctuations initially but after that it looks stable.

3.2.2.6 Karnataka Bank

Karnataka Bank Ltd.
Your Family Bank. Across India.

Head Office: Mahaveera Circle, Mangalore.

Karnataka Bank Limited, a leading 'A' Class Scheduled Commercial Bank in India, was incorporated on February 18th, 1924 at Mangalore, a coastal town of Dakshina Kannada district in Karnataka State. The bank took shape in the aftermath of patriotic zeal that engulfed the nation during the freedom movement of 20th Century India. Over the years the Bank grew with the merger of Sringeri Sharada Bank Ltd., Chitradurga Bank Ltd. and Bank of Karnataka.

With over 87 years experience at the forefront of providing professional banking services and quality customer service, the Bank have a national presence with a network of 490 branches spread across 20 states and 2 Union Territories, and over 5,844 employees, 86,868 shareholders and over 4.84 million customers[XCIII].

Ownership Pattern and Performance Chart:

Figure 3.31: Ownership Pattern of Karnataka Bank

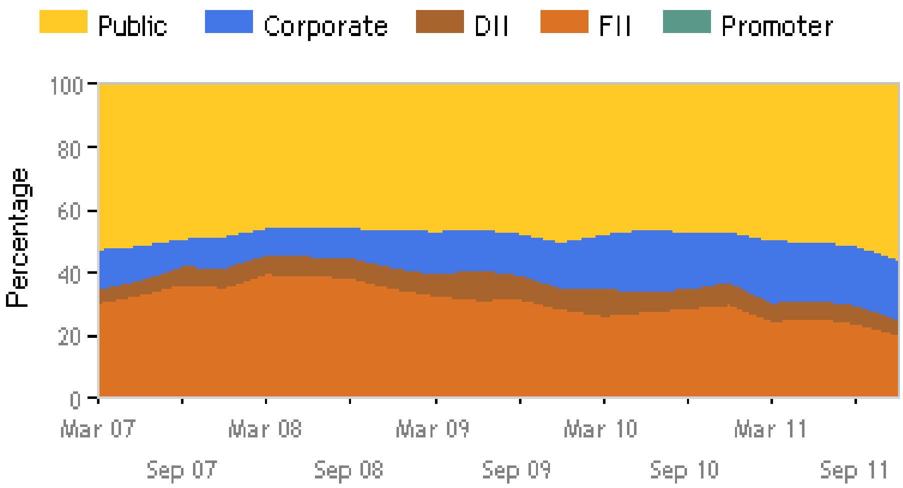


Figure 3.31 shows the ownership pattern of Karnataka Bank. Among the entire selected bank, this is the only bank in which public have the maximum ownership. Second place goes to FIIs followed by corporate. DIIs also have their portion but very less with compare to other investors.

Figure 3.32: Performance Chart of Karnataka Bank

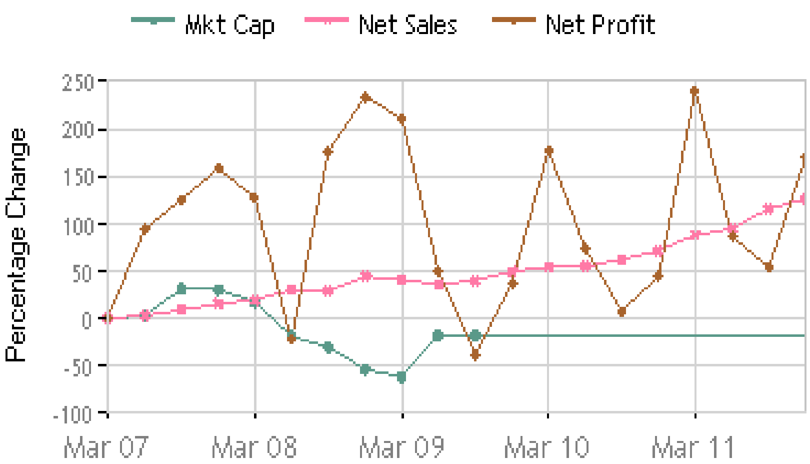


Figure 3.32 shows the performance chart of Karnataka Bank. The bank has increased its net sales with stable growth rate. But the net profit line of the bank is highly fluctuating for throughout the period. Vast fluctuations can seen every year in the net profit of the bank, but it is growing. Market capitalization of the bank is fluctuating initially but after that it seems stable.

3.2.2.7 Kotak Mahindra Bank

Head Office: 36-38A, Nariman Bhawan, 227 Nariman Point, Mumbai 400021

The journey of Kotak Mahindra Bank begins with Kotak Mahindra Finance Ltd. in 1985. After a successful journey of one and half decade, in 2003, the Kotak Mahindra Finance Ltd. converted into a commercial bank. In 2009, the Bank opened a representative office at Dubai. Today The Bank is one of the leading private sectors Indian Bank[XCIV].

Ownership Pattern and Performance Chart:

Figure 3.33 shows the ownership pattern of Kotak Mahindra Bank. The promoters of the bank possess maximum ownership of the bank, followed by FIIs. Public also has the considerable portion in bank. Very less potion is available to DIIs and corporate. Though the portion of corporate is increasing which is very least in earlier period.

Figure 3.33: Ownership Pattern of Kotak Mahindra Bank

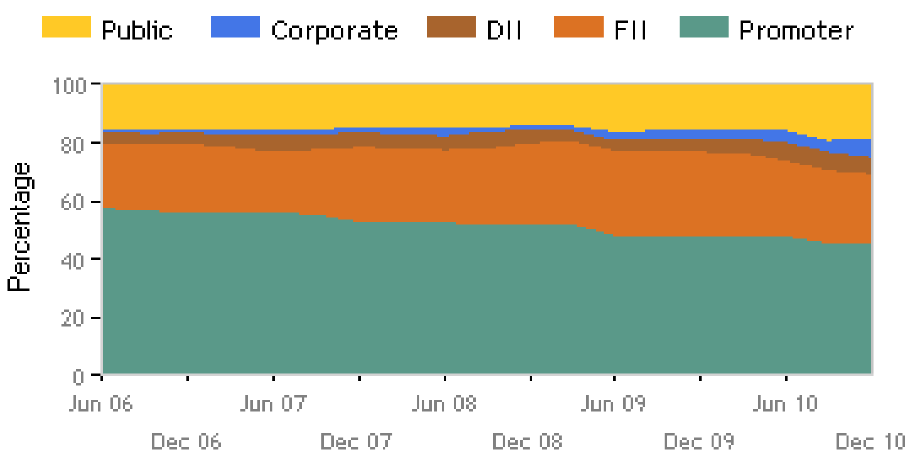


Figure 3.34: Performance Chart of Kotak Mahindra Bank

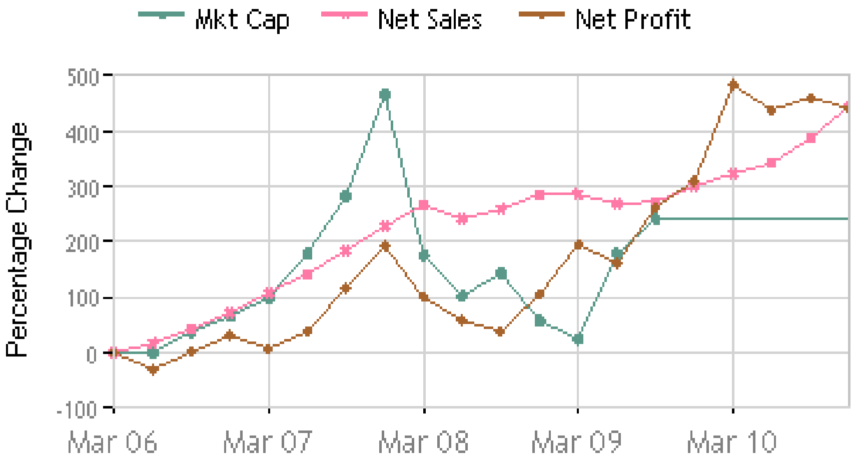


Figure 3.34 shows the performance chart of Kotak Mahindra Bank. As per the chart, performance of the bank is very good as the net sales line has grown very rapidly. But the net profit line of the bank is very fluctuating. Initially it is lower but finally it has crossed the net sales line. Market capitalization also looks very fluctuating initially but after that it is stable.

3.2.2.8 Yes Bank

Head Office: Nehru Centre, 9th Floor, Discovery of India, Dr. A.B. Road, Worli, Mumbai 400018

Yes Bank was incorporated as a Public Limited Company on November 21, 2003. Yes Bank is one of the top most private Indian banks. Awarded by the only Greenfield license award by RBI in last 14 years, this bank is established and run by Rana Kapoor and Ashok Kapur with the financial support of Rabobank Nederland, the world's single AAA rated private Bank. Three respected global institutional private equity investors, CVC Citigroup, AIF Capital and Chrys Capital are also associated with this bank. The Yes Bank was established with the motto of providing Indian customers with a motive to provide Indian customers with a spirit of professional entrepreneurship blended with a premium quality, technologically savvy banking trends[XCV].

Ownership Pattern and Performance Chart:

Figure 3.35 shows the ownership pattern of yes Bank. The maximum ownership of the bank is possessed by FIIs, which was lower initially but after that it has increased drastically. On the other hand, promoters of the bank were having the highest portion initially which is not reduced. The same proportion can seen in the portion of corporate. They have now least share. Public also have considerable share in the bank. Share of DIIs is also increased rapidly.

Figure 3.35: Ownership Pattern of Yes Bank

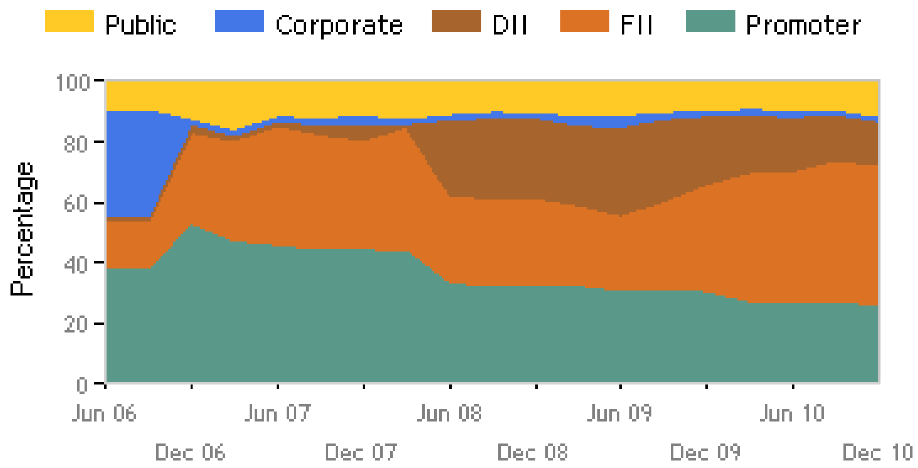
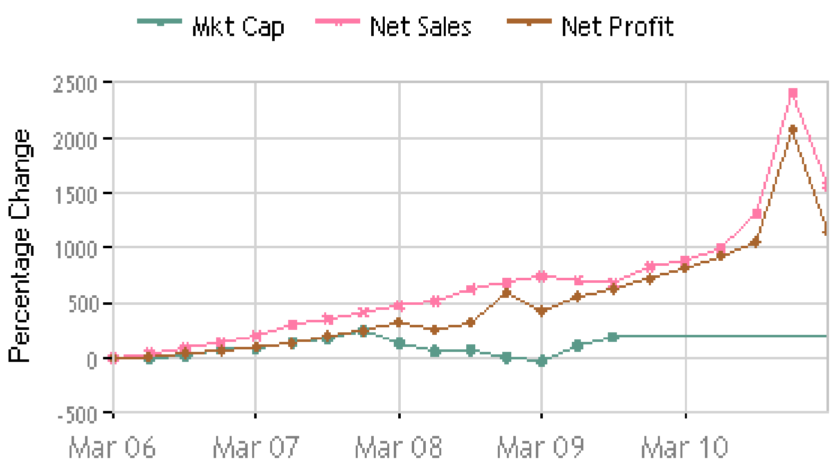


Figure 3.36 shows the performance chart of Yes Bank. Performance of the bank is very stable and growing in uniform way which clears from the net sales line and net profit lines. Both have increased simultaneously. Whereas market capitalization of the bank is slightly fluctuating initially that is stable afterwards.

Figure 3.36: Performance Chart of Yes Bank



3.3 Guidance on Good Practices in Corporate Governance Disclosure

The issue of corporate governance continues to receive a high level of attention. Valuable lessons have been learned from the series of corporate collapses that occurred in different parts of the world in the early part of this decade. Since then, UN member States have undertaken various actions to strengthen their regulatory frameworks in this area in order to restore investor confidence, and enhance corporate transparency and accountability. At UNCTAD's 10th quadrennial conference, which was held in Bangkok in February 2000, member States requested it to promote increased transparency and improved corporate governance. In response, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) at UNCTAD conducted a series of consultations and deliberations on corporate governance disclosure during its annual sessions with a view to assisting developing countries and countries with economies in transition in identifying and implementing good corporate governance practices. This was undertaken as part of the larger goal of achieving better corporate transparency and accountability in order to facilitate investment flows and mobilize financial resources for economic development.

At its 21st session in 2004, the Group of Experts agreed to consider further developments in the area of disclosures and to update its earlier work as needed. Accordingly, the updating work was conducted and reviewed at the 22nd session of the Group of Experts in 2005, where it was decided to prepare this guidance for publication and disseminate it as widely as possible. ISAR's decision was welcomed by delegates during the 10th session of the Commission on Investment, Technology and Related Financial Issues in 2006, where delegates commended the report for its usefulness and recognized the need for tools to promote good practices in corporate transparency and reporting. These guidelines, therefore expected to serve as a useful tool for drawing attention to good corporate governance disclosure practices that enterprises in different parts of the world might wish to emulate.

Researcher has used these guidelines to decide the score of corporate governance in selected banks of India to disclose their corporate governance practices. As per these guidelines, corporate governance disclosure can divide in two parts:

Financial Disclosures

Non Financial Disclosures

As the parts itself shows, the financial disclosures deals with the financial documentation and disclosure practices of the firms and non financial disclosures deals with the other than financial documentation and disclosures by the firm. The each part is explained in detail as under:

3.3.1 Financial Disclosures:

- **Enterprises should disclose their financial and operating results**.

One of the major responsibilities of the board of directors is to ensure that shareholders and other stakeholders are provided with high-quality disclosures on the financial and operating results of the entity that the board of directors have been entrusted with governing. Almost all corporate governance codes around the world, including the OECD and the ICGN Principles, the CACG Guidelines, the Cadbury Report, and the King II, specifically require the board of directors to provide shareholders and other stakeholders with information on the financial and operating results of a company to enable them to properly understand the nature of its business, its current state of affairs and how it is being developed for the future.

The quality of financial disclosure depends significantly on the robustness of the financial reporting standards on the basis of which the financial information is prepared and reported. In most circumstances, the financial reporting standards required for corporate reporting are contained in the generally accepted accounting principles recognized in the country where the entity is domiciled. Over the last few decades, there has been increasing convergence towards a set of non-jurisdiction specific, widely recognized financial reporting-standards. The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board provide a widely recognized benchmark in this respect.

Furthermore, the board of directors could enrich the usefulness of the disclosures on the financial and operating results of a company by providing further explanation, for example in the Management's Discussion and Analysis section of the annual report, on critical accounting estimates1 of the company in addition to the disclosure required by the applicable financial reporting standards.

The board could clearly identify inherent risks and estimates used in the preparation and reporting of the financial and operational results of the company in order to give investors a better understanding of the risks they are taking in relying on the judgement of management. For example, in some cases, financial reporting measurement requirements call for the valuation of certain assets on a fair value basis.

However, while for certain assets deep markets might exist and fair value could be obtained with reasonable objectivity that might not be the case for others. Situations of the latter kind may invite management to exercise great latitude and influence the direction of earnings in its favour by resorting to less objective estimates based on modelling hypothetical markets. In addition to the disclosure required by the applicable financial reporting standards, the board of directors may provide further comfort to shareholders and other stakeholders by disclosing that the board or its audit committee has reviewed fair value computations, if any, and that the computations were conducted in an objective manner.

- **The board's responsibilities regarding financial communications should be disclosed.**

A description of the board's duties in overseeing the process of producing the financial statements should be provided. This is useful for supporting the notion that the board is responsible for creating an overall context of transparency. It is generally accepted that the board has responsibility for reporting on the financial and operating results of the corporation. Almost all corporate governance codes describe the basic responsibility of the board for reviewing financial statements, approving them, and then submitting them to shareholders. When the duties of the board in this area are clearly disclosed, shareholders and other stakeholders could find it useful in providing an additional level of comfort regarding the fact that the financial statements accurately represent the situation of the company.

The quality of financial disclosure could be undermined when consolidation requirements on financial reporting are not followed appropriately. In this respect, the board of directors could provide additional comfort to users of its financial reports. For example, the board of directors could state that it had ascertained that all subsidiaries and affiliated entities, including special-purpose ones, which are subject to consolidation as per the financial reporting standards applicable to the entity, have been properly consolidated and presented.

- **Enterprises should fully disclose significant transactions with related parties**.

Many shareholders and stakeholders would be interested in information that would help them determine that management is running the enterprise with the best interest of all shareholders and stakeholders in mind and not to unduly benefit any related parties (see also section II.E.6 below on conflict of interest). Most national financial reporting standards, and IFRS, require extensive disclosure on this matter.

However, in circumstances where the financial reporting requirements are less stringent, as a minimum, the board of directors should provide the following disclosures that are generally considered best-practice: significant related-party transactions and any related-party relationships where control exists; disclosure of the nature, type and elements of the related-party transactions; and related-party relationships where control exists (irrespective of whether there have been transactions with parties under common control). The decision making process for approving related-party transactions should also be disclosed. Members of the board and managers should disclose any material interests in transactions or other matters affecting the company.

Table 3.4: Financial Disclosures as per Guidelines for Good Governance Practices

Sr. No.	Disclosure Item
Financial Disclosures	
1	Directors' Report
2	Auditors Report
3	P & L Account & Balance Sheet & Cash Flow Statement
4	Schedules forming part of B/s & P & L Account
5	Statement pursuant to Sec. 212 of Co. Act 1956
6	Consolidated Financial Statements
7	Notes to account
8	Significant Accounting Policies
9	Related Party Transactions
10	Corporate Reporting Framework
11	Risk & Estimates in Preparing & Presenting Financial Statements
12	BASEL - II Disclosures
13	Dividend [Dividend History/ Details]
14	Other Financial Performances [Ratios/Charts/Graphs]

3.3.2 Non Financial Disclosures:

3.3.2.1 Company Objectives

- **The objectives of the enterprise should be disclosed.**

There are two general categories of company objectives: the first is commercial objectives, such as increasing productivity or identifying a sector focus; the second is much more fundamental and relates to governance objectives: it seeks to answer the basic question, "why does the company exist?" This section refers to these governance objectives. The objectives of enterprises may vary according to the values of society. In many countries, but by no means all, the primary corporate objective is to maximize the long-term return to shareholders (shareholder value). This objective appears in many codes throughout the world.

However, despite an increasing awareness throughout the world that shareholder requirements must be met in order to attract and retain long-term, low-cost capital, the emphasis on shareholder value maximization has not precluded a growing emphasis on other corporate objectives. Many codes now include social, environmental and economic objectives as part of the fundamental objectives of an enterprise. In particular, the codes emphasize the need for enterprises to address the interests of a range of stakeholders in order to promote the long-term sustainability of the enterprise. If an enterprise knowingly damages the interests of its stakeholders, it can risk negatively affecting its own ability to produce long term shareholder value. This suggests that rather than viewing shareholder value and stakeholder value as mutually exclusive objectives, there are indications that the opposite is true, and that the two objectives are probably interdependent in the long run. This emphasis on a broader set of objectives can be found in the Revised OECD Guidelines on Multinational Enterprises, the 2004 edition of the OECD Principles of Corporate Governance, proposed revisions of the UK Companies Act, and the King II Report.

3.3.2.2 Ownership and Shareholders Rights

- **The beneficiary ownership structure should be fully disclosed to all interested parties. Changes in the shareholdings of substantial investors should be disclosed to the market as soon as a company becomes aware of them.**

The beneficiary ownership structure of an enterprise is of great importance in an investment decision, especially with regard to the equitable treatment of shareholders. In order to make an informed decision about the company, investors need access to information regarding its ownership structure.

It is recommended that this disclosure includes the concentration of shareholdings, for example the holdings of the top twenty largest shareholders. This information is of particular interest to minority shareholders. In some countries (e.g. Germany) disclosure is required when certain thresholds of ownership are passed.

- **Disclosure should be made of the control structure and of how shareholders or other members of the organisation can exercise their control rights through voting or other means. Any arrangement under which some shareholders may have a degree of control disproportionate to their equity ownership, whether through differential voting rights, appointment of directors or other mechanisms, should be disclosed. Any specific structures or procedures which are in place to protect the interests of minority shareholders should be disclosed.**

In certain cases, control is exercised indirectly via the ownership of one or several entities that in turn (collectively) control a corporation (i.e. a pyramid structure). In such cases, the disclosure of ultimate control is considered best practice. As noted in the OECD Principles, information about record ownership may need to be complemented with information about beneficial ownership, in order to identify potential conflicts of interest, related-party transactions and insider trading. In disclosing beneficial (or ultimate) ownership, information should also be provided about shareholder agreements, voting caps and cross-shareholdings, as well as the rights of different classes of shares that the company may have issued.

A company might have a single shareholder or group of shareholders with majority control of the company, either through holding the majority of the company’s outstanding equity or through holding shares with superior voting rights. In this situation, without safeguards for minority shareholders, the latter group may be adversely affected. This issue is emphasized by a number of codes, including the OECD Principles.

A number of international statements advocate a “one share one vote” approach. Although the OECD Principles do not advocate any particular view on the "one share one vote" approach, the Principles include examples of other international statements that do advocate a "one share one vote" approach. The International Corporate Governance Network, among others, is a strong supporter of this approach.

Advocates of the "one share one vote" approach view any deviation from this approach as an undesirable distortion of the connection between investment risk and the decision-making process. However, actual practice might be different. For example, in the European Union, many member States do allow shares with multiple or no voting rights. While this practice remains controversial, it may be tolerated by investors as long as differentials in voting rights are disclosed. The European Association of Securities Dealers does not support such differentials but allows flexibility, noting that if they cannot be avoided they should at least be indicated by a different share class (EASD Principles, Recommendation II.2).

3.3.2.3 Changes in Control and Transactions Involving Significant Assets

- **Rules and procedures governing the acquisition of corporate control in the capital markets and extraordinary transactions such as mergers and sales of substantial portions of corporate assets should be disclosed.**

Best practice suggests a substantial amount of pre control transaction disclosure, including the disclosure of the intention to acquire control, and to take the company private, and of associated squeeze-out/sell-out rights relevant for minority shareholders. Other typical disclosures include the identity of the bidder, past contacts, transactions and agreements between the merging entities (or acquirer and target, as the case may be), and a discussion of the consequences of the control transaction for the shareholders of the companies involved, as well as disclosure of the financial situation of the bidder and its source of funds for the control transaction.

This disclosure should include any anti-takeover measures established by the enterprise. It should also cover the compensation policy for senior executives leaving the firm as a result of a merger or acquisition.

Best practice disclosure for sales of substantial portions of corporate assets include a notice to all shareholders (usually at the annual general meeting), accompanied by an independent evaluation report. In the Republic of Korea, for example, the Corporations Code requires a special resolution for a transaction that may result in the sale of a substantial part of the enterprise. For such transactions involving listed companies, additional disclosure and substantive requirements are imposed. In South Africa, the Companies Act requires approval of the shareholder meeting for sales of the whole or the greater part of the company's assets, and for listed companies such approval is required for any transaction over 30% of assets. In most governance systems, it is generally considered good practice to submit questions of extraordinary transactions (including mergers, acquisitions and takeovers) to a general meeting for shareholder approval.

- **In the interest of protecting minority shareholders, the principle of "equality of disclosure" should be practised, such that all shareholders receive information equally.**

Any information disclosed to one shareholder should also be equally available to all shareholders (FEE, 2003a). This reflects the view that all shareholders should have a right to be equally informed, and complements the issue of simultaneous disclosure of information discussed in section IV below. Major shareholders such as institutional investors should not have privileged access to information that is unavailable to minority shareholders.

3.3.2.4 Governance Structures and Policies:

- **The structure, role and functions of the board**

The term "board" has different meanings in unitary and two-tier systems. A unitary board is composed of executive and non-executive directors. In a two-tier system the term “board” is distinguished between the management board, whose members have executive responsibilities, and the supervisory board, responsible for the monitoring and supervision of the company’s management. Variations exist among the two-tier systems, and the responsibilities of the supervisory board could in some countries include responsibilities for the strategic direction of the company.

While the two-tier system is not as widely utilized as the one-tier system, it is nevertheless prevalent in several large economies such as Austria, Germany and the Netherlands. In this document, the term "board" is used to refer to the highest governing and monitoring body or bodies of an enterprise on which executive and non-executive or supervisory board members sit. The recommendations contained herein typically apply to both one-tier and two-tier systems.

- **The composition of the board should be disclosed, in particular the balance of executives and non-executive directors, and whether any of the non-executives have any affiliations (direct or indirect) with the company. Where there might be issues that stakeholders might perceive as challenging the independence of non-executive directors, companies should disclose why those issues do not impinge on the governance role of the non-executive directors as a group.**

One of the main issues in relation to the board structure and its disclosure is that, regardless of which structure exists in the company, independent leadership within the board is ensured. Some countries would give more emphasis to the need for a clear division of responsibilities between the chairman and the chief executive officer (CEO) (Cadbury Report, para. 4.9). Increasingly, codes mention that while a combined CEO/Chair is tolerable (in a one-tier system), the separation of the two is desirable and considered best practice, as it helps to promote a balance of power within the leadership structure. There is also increasing debate on the need for an independent Chair of the board. Even within economies where a combined role is still common, the accepted view is that measures are called for to balance the power at the head of the corporation such that no single individual has unfettered control of the company (FEE, 2003a).

If the roles of chairman and CEO are combined, the proportion of independent directors within the board structure assumes greater importance. For example, the Cadbury Report recommended that where the roles were combined, there should be a strong independent element on the board and that there should be a lead non-executive director to whom issues regarding the executive management could be addressed. This idea is followed by the Indian code and was also addressed in the 2002 Report of the Kumar Mangalam Birla Committee on Corporate Governance. The idea is also expressed in the Malaysian Code on Corporate Governance (2000). However, the definition of an independent director varies in different countries. Therefore, a reference to a particular approach used in defining director independence might be useful in disclosing and discussing the board structure. FEE (2003a), for example, recommends that a principles-based approach used for assessing the independence of external auditors (see section H below) can also be usefully applied to the assessment of independence among non-executive (supervisory) directors. A crucial general principle in this respect is the principle of self interest threat; a self-interest threat occurs when a director could benefit from a financial or other interest in the enterprise, as a result of unethical behaviour or lack of independence (FEE, 2003b). FEE further recommends that the board should disclose its reasons for considering a non-executive (or supervisory) director to be independent.

It is recognized that not all non-executive directors can be considered independent directors. The Narayan Murty Committee Report in India, for instance, makes a clear distinction between non-executive and independent directors.

For example, non-executive directors who are employees of banks and other financial institutions with which the enterprise has a business relationship cannot be considered independent. Similarly, for the boards of subsidiary companies, it is not uncommon for non-executive directors to be employees of the parent firm or some other subsidiary related to the parent firm.

Any relationship of directors to the parent firm or its subsidiaries should therefore be disclosed. Such a relationship could be considered in assessing the ability of the nonexecutive director to fulfil his or her duties.

- **The board's role and functions must be fully disclosed.**

Most guidelines and codes of best practice emphasize the stewardship and supervision functions of the board and distinguish its responsibilities from those of management. It is important that directors disclose what their functions and retained powers are, otherwise they may be considered accountable for all matters connected with the enterprise. In many Commonwealth countries, for example, the Companies Act makes the directors accountable for the "management" of the company, but also allows them to delegate; hence the importance of recording and disclosing the retained powers of the directors, along with a clear statement about which powers are delegated to the CEO. However, there are differences in the specificity with which the board's role is explained. For example, the Dey Report (Canada), the Vienot Report (France), the Korean Stock Exchange Code, Malaysia's Report on Corporate Governance, Mexico's Code of Corporate Governance and the King II Report (South Africa) specify board functions as strategic planning, risk identification and management selection, oversight and compensation of senior management, succession planning, communications with shareholders, integrity of financial controls and general legal compliance. In India, for example, a director's responsibility statement outlining the board's responsibilities on compliance with standards, internal controls, risk management, fraud detection and other matters, is a disclosure requirement under both the law and stock exchange rules. The degree of differences between codes may reflect the degree to which company law or listing standards specify board responsibilities.

- **Board committees**

It has become a common practice for boards to establish board committees to facilitate fulfilment of certain of the board's functions and address some potential conflicts of interest. The use of board committees is, among other things, intended to enhance independent judgement on matters in which there is potential for conflict of interest, and to bring special expertise in areas such as audit, risk management, election of board members and executive remuneration. While it may be advisable for the preparatory work of certain key board functions to be assigned to separate committees, there is an international consensus that the full board holds collective and final responsibility (FEE, 2003a).

- **Governance structures should be disclosed. In particular**, **the board should disclose structures put in place to prevent conflicts between the interests of the directors and management on the one side, and those of shareholders and other stakeholders on the other**.

These structures may include committees or groups to which the board has assigned duties regarding the oversight of executive remuneration, audit matters, appointments to the board, and the evaluation of management performance.

- **The composition and functions of any such groups or committees should be fully disclosed. Committee charters, terms of reference or other company documents outlining the duties and powers of the committee or its members should also be disclosed, including whether or not the committee is empowered to make decisions which bind the board, or whether the committee can only make recommendations to the board. Where any director has taken on a specific role for the board or within one of these structures, this should be disclosed.**

Internationally, there has been consensus that although a board has collective and final responsibility, the use of committees for the preparatory work of certain key board functions is advisable. This is especially true where executives may find themselves facing conflicts of interest, for example in the areas of audits, remuneration and director nomination. A number of codes address this issue, also outlining the need for clear terms of reference for such committees (e.g. Australia, India, Malaysia, South Africa).

As a general rule, codes have recommended, and in some cases stock exchange regulations require, that some board committees be substantially or exclusively staffed by non-executive or outside directors, particularly independent directors, and especially with regard to the committee chairpersons. Disclosures that are becoming increasingly common include the disclosure of committee charters or terms of reference, committee chairs, reports on activities (in particular those of the audit committee), composition, nominations committee disclosure on whether use is made of external advisers/advertising to find new directors (as opposed to potentially conflicting informal connections), and the effectiveness of executive remuneration in providing incentives for executives.

Ethics policy and support structure

- **The existence of an enterprise code of ethics and any governance structure put in place to support that code of ethics should be disclosed. Any waivers to the code of ethics or the rules governing ethics procedures should also be disclosed.**

Ethics management is important for the promotion of good business practices, transparency and risk reduction. As ethics management becomes more common in enterprises, the existence of its key structural features is an important area of disclosure. It is noted that, with the exception of some countries such as the United States, no general or international best practice has yet been established in this area. Nevertheless, some possible features subject to disclosure might include: the existence of a senior ethics officer and that person's responsibilities; the existence of an ethics committee and its relationship to the board; policies for breaches of the ethics code, including reporting mechanisms and "whistleblower" protection mechanisms; and policies on the dissemination and promotion of the ethics code.

3.3.2.5 Member of the Board and Key Executives

- **Duties and Qualifications**

The number, type and duties of board positions held by an individual director should be disclosed. An enterprise should also disclose the actual board positions held, and whether or not the enterprise has a policy limiting the number of board positions any one director can hold.

Shareholders need to be aware of the number, type and duties of outside board and management positions that any individual director holds. Information on outside board and management positions should be disclosed for key executives as well. The purpose of this information is to make a judgement on the ability of directors and key executives to meet all of their commitments; thus the number as well as the type and duties of the position (which gives some indication of the commitment involved) should be disclosed.

Many codes and institutional investors have specified disclosure requirements (and/or actual limitations) on the number and type of positions held by directors. Among others, such disclosure requirements can be found in the positions of the FEE and the Winter Group Report, the Dey Report, the Indian Code, the Malaysian Code, the King II Report and the National Association of Pension Funds in the UK. Some guidance, such as the report of the FEE, also recommends disclosure of positions held in public or not-for-profit organisations.

- **There should be sufficient disclosure of the qualifications and biographical information of all board members to assure shareholders and other stakeholders that the members can effectively fulfil their responsibilities. There should also be disclosure of the mechanisms which are in place to act as "checks and balances" on key individuals in the enterprise.**

Most governance guidelines and codes of best practice address topics related to directors' qualifications and board membership criteria. These may include experience, personal characteristics, core competencies, availability, diversity, age, specific skills (e.g. the understanding of particular technologies), international background, and so on. The CACG, for example, indicates that the director has to have integrity, common sense, business acumen and leadership.

Some codes specifically require financial literacy (e.g. the National Association of Corporate Directors in the United States) or knowledge of business and financial technology (e.g. the Brazilian Institute of Corporate Governance).

- **There should be disclosure of the types of development and training that directors undergo at induction as well as the actual training directors received during the reporting period.**

Recently, some countries have started to require specific training for directors. For example, in India, the Companies (Amendment) Bill 2003 makes director training mandatory. The Naresh Chandra Committee on Corporate Audit and Governance, also of India, recommends training for independent directors and disclosure thereof.

- **The board should disclose facilities which may exist to provide members with professional advice. The board should also disclose whether that facility has been used during the reporting period.**

On certain legal and financial matters, directors might discharge their duties more effectively if allowed access to independent external advisers, for example legal and financial experts. If used correctly, access to external expertise can enhance the ability of directors to fulfil their duties properly. In New Zealand, for example, it is considered vital for directors to have access to independent advice, and therefore this principle is stated in that country's Companies Act. The Merged Code in Belgium also points out the need for an agreed procedure for using external expertise, a point also mentioned in the Dey Report (Canada), and the Vienot (France), Mertanzis (Greece) and Olivencia (Spain) reports. Best practice suggests that whatever approach is used, the approach should be disclosed.

- **Evaluation Mechanism**

The board should disclose whether it has a performance evaluation process in place, either for the board as a whole or for individual members. Disclosure should be made of how the board has evaluated its performance and how the results of the appraisal are being used.

Along with the duties and responsibilities of directors, shareholders will need to know how directors were evaluated, what criteria were used and how they were applied in practice, particularly with reference to remuneration. CACG Guidelines stress that evaluations should be based on objective criteria. The IAIM Guidelines (Ireland) and Preda Code (Italy) leave to the remuneration committee the selection of appropriate criteria and the establishment of whether these criteria have been met.

An important aspect of performance is the attendance of directors at board and committee meetings. Specific requirements regarding disclosure of the frequency and procedures of board meetings can be found, for example, in the Indian Code, the King II Report and the Combined Code of the United Kingdom.

- **Director’s Remuneration**

Directors should disclose the mechanism for setting directors’ remuneration and its structure. A clear distinction should be made between remuneration mechanisms for executive directors and non-executive directors. Disclosure should be comprehensive to demonstrate to shareholders and other stakeholders whether remuneration is tied to the company’s long-term performance as measured by recognized criteria. Information regarding compensation packages should include salary, bonuses, pensions, share payments and all other benefits, financial or otherwise, as well as reimbursed expenses. Where share options for directors are used as incentives but are not disclosed as disaggregated expenses in the accounts, their cost should be fully disclosed using a widely accepted pricing model.

The current level of disclosure relating to directors' remuneration varies widely. However, the trend appears to be towards greater levels of disclosure in this area, especially in Europe: France, Germany, Luxembourg, the Netherlands, Switzerland and the United Kingdom have all introduced laws to enforce the disclosure of directors' individual remuneration.

In the United Kingdom, for example, the report of the company's remuneration committee must identify each director and specify his or her total compensation package, including share options. Recently added regulations also require companies to put their remuneration report to a shareholder vote at each annual general meeting. Elsewhere in the world there are other examples of this practice. The Indian Code, for instance, requires disclosure about remuneration in a section of the annual report on corporate governance, in addition to suitable disclosure on directors' remuneration in the profit and loss statement.

- **The length of directors' contracts and the termination of service notice requirements, as well as the nature of compensation payable to any director for cancellation of service contract, should be disclosed. A specific reference should be made to any special arrangement relating to severance payments to directors in the event of a takeover.**
- **Succession Planning**

The board should disclose whether it has established a succession plan for key executives and other board members to ensure that there is a strategy for continuity of operations.

OECD Principle IV.D.2 stresses that overseeing succession planning is a key function of the board, while the Dey Report (Canada) considers it an important stewardship duty of the company and the Vienot Report I (France) recommends that the selection committee be prepared to propose successors at short notice. While specific details regarding potential successors might be the subject of confidentiality, the existence of a procedure and a preparedness to appoint successors as necessary is not confidential, and should be the subject of disclosure.

- **Conflict of Interest**

Conflicts of interest affecting members of the board should, if they are not avoidable, at least be disclosed. The board of directors should disclose whether it has a formal procedure for addressing such situations, as well as the hierarchy of obligations to which directors are subject.

Conflicts of interest are required to be disclosed by law in many countries. The critical issue is that all conflicts of interest should be disclosed, along with what the board decided to do regarding the specific situation and the relevant director involved.

3.3.2.6 Material Issued Regarding Stakeholders and Environmental and Social Stewardship

- **The board should disclose whether there is a mechanism protecting the rights of other stakeholders in a business.**

OECD Principle IV concerns itself with ensuring that the rights of stakeholders protected by law are respected. Even where no legislation exists, it is considered good practice to make additional commitments, as corporate reputation and performance may require recognition of broader interests. For example, the CACG Guidelines require that a board identify the corporation's internal and external stakeholders and agree on a policy for how the corporation should relate to them.

- **The role of employees in corporate governance should be disclosed**.

Among member States of the European Union, for example, various practices exist where employees elect some of the supervisory directors, can be given a right to nominate one or more directors or can have an advisory voice on certain issues discussed by the board. This practice is considered by some to dilute the influence of shareholders, and to be a distortion of the connection between investment risk and the decision-making process. Others consider the strong interest of employees in the enterprise to warrant their special status in the governance process, and view employee involvement as having a beneficial effect on the overall sustainability of the firm. Regardless of one's views, any mechanisms for employee involvement in the governance of the enterprise should be clearly disclosed.

- **The board should disclose its policy and performance in connection with environmental and social responsibility and the impact of this policy and performance on the firm's sustainability.**

The environmental dimension of this issue was addressed by ISAR in its agreed conclusions on Accounting and Financial Reporting for Environmental Costs and Liabilities. ISAR noted that an enterprise's environmental performance could affect its financial health and hence its sustainability. At its twentieth session, ISAR concluded that the pressure for better reporting on social issues was increasing and that enterprises were producing more information on this topic. Among others, the

King II Report (South Africa), the Association of British Insurers (UK) in its Disclosure Guidelines on Socially Responsible Investment and the guidelines of the Global Reporting Initiative encourage disclosure of governance mechanisms in place to support improvement of social and environmental performance. Such governance disclosure is also relevant for creators of "socially responsible investing" indexes, such as the Domini 400 Social Index produced by KLD Research & Analystics in the United States, the FTSE4GOOD produced by FTSE in the United Kingdom, or the Dow Jones Sustainability Worlds Indexes (DJSI) produced by the SAM Group of Switzerland in conjunction with Dow Jones Ltd and STOXXX Ltd.

3.3.2.7 Material Foreseeable Risk Factors

- **The board should give appropriate disclosures and assurance regarding its risk management objectives, systems and activities. The board should disclose existing provisions for identifying and managing the effects of risk bearing activities. The board should report on internal control systems designed to mitigate risks. Such reporting should include risk identification mechanisms.**

In recent years, much attention has been paid to the role of the board in risk assessment or management and internal controls designed to mitigate risk. This issue is emphasized in most codes and principles, including the OECD Principles, the CACG Guidelines, King II and the United Kingdom's Combined Code.

Users of financial information and participants in the marketplace need information on foreseeable material risks, including risks specific to industries or geographical areas, dependence on certain commodities, financial market risk and derivative risks. The corporate governance structures in place to assess, manage and report on these types of risks should be the subject of corporate governance disclosure.

3.3.2.8 Independence of External Auditors

- **The board should disclose that it has confidence that the external auditors are independent and their competency and integrity have not been compromised in any way. The process for the appointment of and interaction with external auditors should be disclosed.**

Independent external audits should provide an objective assurance that the financial statements present a true and fair view (or are presented fairly in all material respects) of the financial condition and performance of the audited entity. Therefore, most governance codes and guidelines define procedures for enhancing the independence, objectivity and professionalism of the external audit. A number of approaches regarding the external audit, such as the need for audit partner rotation and the avoidance of possible conflicts of interest involved in providing non-audit services, can be considered to ensure that external audits serve shareholder and other stakeholder interests in the intended manner.

Auditor independence is a prerequisite for the reliability and credibility of the audit of financial statements. Adopting a principles-based approach to auditor independence (as set out in the EC's 2002 recommendation on auditor independence and in the IFAC Code of Ethics) is valued for its adaptability to new practices. The principles-based approach sets out the fundamental principles which must always be observed by the auditor and considers the threats and safeguards (including restrictions and prohibitions) to be in place to ensure the auditors' independence and objectivity. However, it could be useful for enterprises to disclose a substantial definition of those activities that would be regarded as non-audit-related, especially in those cases where audit and non-audit-related fees are not subject to mandatory disclosure.

- **Disclosures should cover the selection and approval process for the external auditor, any prescriptive requirements of audit partner rotation, the duration of the current auditor (e.g. whether the same auditor has been engaged for more than five years and whether there is a rotation of audit partners), who governs the relationship with the auditor, whether auditors do any non-audit work and what percentage of the total fees paid to the auditor involves non-audit work.**

The audit committee should play a role in establishing a policy on purchasing non-audit services from the external auditor; this policy should be disclosed along with an explanation or assessment of how this policy sufficiently ensures the independence of the external auditor (FEE, 2003a).

- **Internal Audit Function**

Enterprises should disclose the scope of work and responsibilities of the internal audit function and the highest level within the leadership of the

enterprise to which the internal audit function reports. Enterprises with no internal audit function should disclose the reasons for its absence.

An effective internal audit function plays a significant role within the corporate governance framework of a company. The scope of work and responsibilities of an internal audit function are often determined by the board (or management board in a two-tier system), typically in conjunction with the audit committee, and can vary significantly depending on the size, structure and complexity of the company and the resources allocated. Given the potential variation in the internal audit function among enterprises, it is recommended that details of this function be disclosed.

3.3.2.9 General Meetings

- **Disclosure should be made of the process for holding and voting at annual general meetings and extraordinary general meetings, as well as all other information necessary for shareholders to participate effectively in such meetings. Notification of the agenda and proposed resolutions should be made in a timely fashion, and be made available in the national language (or one of the official languages) of the enterprise as well as, if appropriate, an internationally used business language. The results of a general meeting should be communicated to all shareholders as soon as possible.**

The OECD Principles outline a general consensus as to the nature of shareholder meetings and the requirement to make shareholder participation as simple and effective as possible and ensure the equitable treatment of all shareholders. The Principles state that shareholders should be informed of the rules and be furnished with information regarding the date, location and agenda of the meeting as well as the issues to be decided. Sufficient information should be provided so that shareholders can make fully informed decisions. Enterprises should do everything possible to facilitate the effective participation of all (including foreign) shareholders in general meetings.

In most governance systems, it is either required or considered good practice to put certain issues to shareholder approval at a general meeting. Best practice in this area entails that issues subject to shareholder approval be presented individually and unbundled, allowing shareholders to accurately exercise their voting rights. These rules can vary across different countries, and therefore disclosing information on the subject would be useful, especially for foreign investors. In some countries, for some enterprises, new types of voting technology are being employed, for example Internet voting. The enterprise should, when issuing notice of the meeting, disclose the relevant details of voting technologies employed.

- **The enterprise should disclose all relevant information on the process by which shareholders can submit agenda items, and should disclose which shareholder proposals (if any) were excluded from the agenda and why.**

It is considered good practice in most governance systems to allow shareholders to include items on the agenda of a general meeting.

3.3.2.10 TIMING AND MEANS OF DISCLOSURE

- **All material issues relating to corporate governance of the enterprise should be disclosed in a timely fashion. The disclosure should be clear, concise, precise and governed by the "substance over form" principle.**

Some issues may require continuous disclosure. Relevant information should be available for users in a cost effective way, preferably through the websites of the relevant government authority, the stock exchange on which the enterprise is listed (if applicable) and the enterprise itself. The location of corporate governance disclosures within the annual report is not generally defined and can vary substantially in practice. Some degree of harmonization of the location of corporate governance disclosures would be desirable to make the relevant data more accessible. Two possible approaches include putting all corporate governance disclosures in a separate section of the annual report, or in a stand-alone corporate governance report. Examples of the former approach are found in the recommendations of the Hong Kong Society of Accountants and the listing requirements in India and Switzerland, which provide for corporate governance disclosures to appear in a separate section of the annual report and in a prescribed format. Where corporate governance disclosures are not consolidated, there should be sufficient cross-referencing to different disclosures to improve access to the information.

Some information related to corporate governance may require immediate disclosure, and some codes and listing requirements address this issue. For example, in Malaysia listing requirements call for immediate disclosure of a change in the management, external auditor or board structure.

- **Traditional channels of communication with stakeholders, such as annual reports, should be supported by other channels of communication, taking into account the complexity and globalization of financial markets and the impact of technology.**

The OECD Principles state that the Internet and other information technologies provide the opportunity for improving information dissemination. In some countries (e.g. the United States), Internet disclosure is now accepted as legal disclosure and annual reports must indicate where company information can be found on the Internet. The King II Report also emphasizes the need for critical financial information to be made available to shareholders simultaneously and supports the idea that traditional channels of communication be complemented by new means, such as the Internet.

Whatever disclosures are made and whatever channels used, a clear distinction should be made between audited and unaudited financial information, and means of validation of other non-financial information should be provided.

3.3.2.11 GOOD PRACTICES FOR COMPLIANCE

- **Where there is a local code on corporate governance, enterprises should follow a "comply or explain" rule whereby they disclose the extent to which they followed the local code's recommendations and explain any deviations. Where there is no local code on corporate governance, companies should follow recognized international good practices.**

The use of "comply or explain" mechanisms in many countries allows investors and other stakeholders greater access to information about the corporation and is to be encouraged. In relation to this "comply or explain" rule, some countries now require companies with foreign listings to disclose the extent to which the local governance practices differ from the foreign listing standards.

- **The enterprise should disclose awards or accolades for its good corporate governance practices.**

It is recognized that there is an increase in the number of corporate governance accolades, awards, ratings, rankings and even corporate governance stock market indexes where constituents are selected on the basis of exhibiting good practices in corporate governance. Especially where such awards or recognitions come from major rating agencies, stock exchanges or other significant financial institutions, disclosure would prove useful since it provides independent evidence of the state of a company's corporate governance.

Table 3.5: Non Financial Disclosures as per Guidelines for Good Governance Practices

Sr. No.	Disclosure Item
	Non Financial Disclosure
	Company Objectives
1	Message from the Chairman
2	Letter from MD & CEO
3	Vision & Mission Statement
	Ownership & Shareholders' Rights
4	Ownership/ Shareholding Structure/ Pattern
5	Shareholders' Rights
	Governance Structure & Policies
6	Statutory Details of the company
7	Size of the Board [Minimum 10 members]
8	Composition of Board
9	Chairman & CEO Duality
10	Information about independent Directors
11	Role & Functions of the Board
12	Changes in the Board Structure
13	Audit Committee [Minimum 5 members, one of them must be CA]
14	Remuneration & Nomination Committee
15	Investors' Grievance Redressal Committee
16	Other Committees
17	Composition of the Committees
18	Functioning of the Committees
19	Organizational Code of Ethics
	Member of the Board & Key Executives
20	Biography of the Board Members
21	Number of Directorship hold by each Member
22	Number of Board Meetings [At least 3 in a year]
23	Attendance in Board Meetings [Minimum 80%]

24	Director's Stock Ownership
25	Director Remuneration
	Material Issues Regarding Employees, Environmental & Social Stewardship
26	Employee Relation/ Industrial Relation
27	Corporate Social Responsibility
28	Environmental Responsibility
29	Financial Inclusion Norms/ Policy
	Material Foreseeable Risk Factors
30	Internal Control System
	Independence of Auditors
31	Auditor Appointment & Rotation
32	Auditor Fees
	Annual General Meeting
33	Notice & Agenda of the AGM
	Timings & Means of Disclosure
34	Separate CG Statement/ Section
35	Annual Report through Internet
36	Green Initiative Practices [for 2010-11 only]
	Best Practices for Compliance with CG
37	Compliance Certificate for CG [Clause 49]
38	Philosophy on Code of CG
39	Best Practices Recognition/ Award for CG

3.4 Analysis of Financial Disclosure Index of Selected Banks

As researcher has discussed earlier, the corporate governance index is based on the financial and non financial disclosures as per the guidelines on good governance practices issued by the UNATD. With this reference, the researcher has developed the financial disclosure index of each selected bank given as in Table 3.4 for five year from 2006-07 to 2010-11. Financial discloser index contains total 14 items and each has allocated the score of 1 for each year, and so 5 for five years. In this way, the maximum score of the financial index is 70. For the purpose of bank wise analysis of financial disclosure index, researcher has divided the banks in two groups. Group I – Public Sector Banks and Group II – Private Sector Banks.

3.4.1 Analysis of Financial Disclosure of Group I Banks:

Analysis of financial disclosure of ten public sector banks under Group I is as under:

Table 3.6: Analysis of Financial Disclosures of Allahabad Bank

Sr. No.	Disclosure Item	Allahabad Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	0	0	0	0	0	0
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	0	0	0	0	0	0
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	0	0	0	0	0	0
TOTAL		11	11	11	11	11	55

From the above table 3.6, shows the analyse of the financial disclosure of Allahabad Bank. First bank of Group I Banks. Out of total score of 70, the bank has obtained 55. So the level of completion of financial disclosure of the bank is 78.57%. Lacking factors in the financial disclosure of the Bank are details of subsidiaries, risk management and other financial performances in form of ratios/charts/graphs. With compare to other banks, the overall look of the financial statements of the Allahabad Bank did not so attractive. Though, the financial statements of the Bank had prepared in two languages – English and Hindi.

Table 3.7 indicates the financial disclosures of Bank of Baroda. The bank has obtained total score of 65 out of 70. So the percentage of completion of financial disclosures of the bank is 92.86%. The Bank lacking only in details of subsidiaries in financial disclosures for all five years.

Table 3.7: Analysis of Financial Disclosures of Bank of Baroda

Sr. No.	Disclosure Item	Bank of Baroda					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	0	0	0	0	0	0
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		13	13	13	13	13	65

Table 3.8: Analysis of Financial Disclosures of Bank of India

Sr. No.	Disclosure Item	Bank of India					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	0	0	0	0	0	0
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		13	13	13	13	13	65

Table 3.8 shows the financial disclosures of the Bank of India. The Bank got the total score of 65 out of 70. So the percentage of completion of financial disclosures of the bank is 98.86%. The Bank was lacking the details of subsidiaries for all the five years.

Table 3.9: Analysis of Financial Disclosures of Canara Bank.

Sr. No.	Disclosure Item	Canara Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	0	0	0	0	0	0
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	0	0	0	0	0	0
9	Related Party Disclosures	0	0	0	0	0	0
10	Segment Reporting	0	0	0	0	0	0
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		10	10	10	10	10	50

Table 3.9 indicates the financial disclosures of Canara Bank. With compare to other banks, the annual reports of the Canara Bank were not formatted properly, and that is the reason, the bank has lower score among all the banks of Group I as well as Group II. As per the analysis, the bank was lacking in many areas like the details of subsidiaries, significant accounting policies, related party disclosures and segment reporting. The score of the Canara Bank is 50 out of 70. So the level of compliance is 71.43%.

Table 3.10 shows the analysis of financial disclosures of IDBI Bank. The IDBI Bank fulfilled all the criteria of the financial disclosures and it has a good score of 70 out of 70, with 100% compliance of financial disclosures. That shows the good governance practices of the bank. The IDBI Bank had also followed good reporting practices with attractive and detailed annual reports.

Table 3.10: Analysis of Financial Disclosures of IDBI Bank

Sr. No.	Disclosure Item	IDBI Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.11: Analysis of Financial Disclosures of Indian Overseas Bank.

Sr. No.	Disclosure Item	Indian Overseas Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	4
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.11 shows the analysis of financial disclosures of Indian Overseas Bank. The financial disclosure score of Indian Overseas Bank is 70 out of 70; with compliance of financial disclosures by 100%. The bank did not have any subsidiary companies so criteria details of subsidiaries and consolidated financial statements were not applicable, though researcher has allotted full score for ease in calculation.

Table 3.12: Analysis of Financial Disclosures of Oriental Bank of Commerce.

Sr. No.	Disclosure Item	Oriental Bank of Commerce					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	4
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.12 shows the analysis of financial disclosures of Oriental Bank of Commerce. The financial disclosure score of Oriental Bank of Commerce is 70 out of 70; with compliance of financial disclosures by 100%. The bank did not have any subsidiary companies so criteria details of subsidiaries and consolidated financial statements were not applicable, though researcher has allotted full score for ease in calculation.

Table 3.13 shows the analysis of financial disclosures of Punjab National Bank. The Punjab National Bank had financial disclosure score of 65 out of 70. The only lacking information was details of subsidiaries. The Punjab National Bank had compliance of financial disclosures by 92.86%.

Table 3.13: Analysis of Financial Disclosures of Punjab National Bank.

Sr. No.	Disclosure Item	Punjab National Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	0	0	0	0	0	0
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	4
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		13	13	13	13	13	65

Table 3.14: Analysis of Financial Disclosures of State Bank of India.

Sr. No.	Disclosure Item	State Bank of India					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	1
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.14 shows the financial disclosures of State Bank of India. The State Bank of India had got the score of 70 out of 70; with 100% compliance of financial disclosures. It shows the sound practice of financial disclosures by the Bank.

Table 3.15 shows the analysis of financial disclosure of the last bank of Group I banks – Union Bank of India. The score of financial disclosure of the Bank is 70 out of 70, which shows the 100% compliance with financial disclosures.

Table 3.15: Analysis of Financial Disclosures of Union Bank of India.

Sr. No.	Disclosure Item	Union Bank of India					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of Financial Statements	1	1	1	1	1	5
5	Details of Subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

3.4.2 Analysis of Financial Disclosure of Group II Banks:

Analysis of financial disclosure of eight private sector banks under Group II is as under:

Table 3.16 below, shows the analysis of financial disclosure of Axis Bank. The Bank has got score of 70 out of 70, with 100% compliance in financial disclosures. The annual reports of the bank for all five years were very attractive and presented in reader friendly way. In 2006-07 the bank had its old identity, UTI Bank, and from 2007-08, it became the Axis Bank.

Table 3.16: Analysis of Financial Disclosures of Axis Bank

Sr. No.	Disclosure Item	Axis Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.17: Analysis of Financial Disclosures of Federal Bank

Sr. No.	Disclosure Item	Federal Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.17 shows the financial disclosures of Federal Bank. The Federal Bank has fulfilled all the financial disclosures as per the requirements for all the years. So the score of the bank is 70 out of 70, with 100% compliance level.

Table 3.18: Analysis of Financial Disclosures of HDFC Bank

Sr. No.	Disclosure Item	HDFC Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.18 shows the financial disclosures of HDFC Bank. The HDFC Bank has fulfilled all the financial disclosures as per the requirements for all the years. So the score of the bank is 70 out of 70, with 100% compliance level. The bank has shown many other financial details, which are not shown in the list of financial disclosures. Annual reports of the HDFC Bank were very attractive and reader friendly.

Table 3.19 shows the financial disclosures of the ICICI Bank. Being the largest private sector bank of the India, the financial disclosures of the bank are appropriate for all the five years. So, the ICICI Bank has got score of 70 out of 70. And the level of compliance with financial disclosures is 100%. The ICICI Bank has given many useful details in annual reports, other than shown in the list of financial disclosures. Thus, the annual reports of the bank are efficient and reader friendly.

Table 3.19: Analysis of Financial Disclosures of ICICI Bank

Sr. No.	Disclosure Item	ICICI Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.20: Analysis of Financial Disclosures of IndusInd Bank

Sr. No.	Disclosure Item	IndusInd Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.20 shows the financial disclosures of IndusInd Bank. The IndusInd Bank has fulfilled all the financial disclosures as per the requirements for all the years. So the score of the bank is 70 out of 70, with 100% compliance level. The annual reports of the Bank were as per the best norms of industry.

Table 3.21: Analysis of Financial Disclosures of Karnataka Bank

Sr. No.	Disclosure Item	Karnataka Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.21 shows the financial disclosures of Karnataka Bank. The Karnataka Bank has fulfilled all the financial disclosures as per the requirements for all the years. So the score of the bank is 70 out of 70, with 100% compliance level. Though, the Karnataka Bank did not have any subsidiary companies, so details of subsidiaries and consolidated financial statements are not applicable. Researcher has given the full score for ease of calculation.

Table 3.22 below, shows the financial disclosures of Kotak Mahindra Bank for five years. The Kotak Mahindra Banks has got score of 70 out of 70; with 100% compliance in financial disclosures. The annual reports of the bank are as per the standards of the industry.

Table 3.22: Analysis of Financial Disclosures of Kotak Mahindra Bank

Sr. No.	Disclosure Item	Kotak Mahindra Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	1	1	1	1	1	5
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		14	14	14	14	14	70

Table 3.23: Analysis of Financial Disclosures of Yes Bank

Sr. No.	Disclosure Item	Yes Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Directors' Report	1	1	1	1	1	5
2	Auditors Report	1	1	1	1	1	5
3	Financial Statements	1	1	1	1	1	5
4	Schedules forming part of financial statements	1	1	1	1	1	5
5	Details of subsidiaries	1	1	1	1	1	5
6	Consolidated Financial Statements	1	1	1	1	1	5
7	Notes on account	1	1	1	1	1	5
8	Significant Accounting Policies	1	1	1	1	1	5
9	Related Party Disclosures	1	1	1	1	1	5
10	Segment Reporting	1	1	1	1	1	5
11	Risk Management	0	0	0	0	0	0
12	BASEL - II Disclosures	1	1	1	1	1	5
13	Dividend Details	1	1	1	1	1	5
14	Other Financial Performances	1	1	1	1	1	5
TOTAL		13	13	13	13	13	65

Table 3.23 shows the financial disclosures of Yes Bank for five years. The Yes Bank is the only bank on Group II banks, which has got fewer score of 65 out of 70; with 92.86% compliance in financial disclosures. The only missing disclosure was risk management policy of the Yes Bank which was not available in the reports.

Thus, after analyzing financial disclosures of the Group I and Group II banks, researcher has summarized the score of banks of each group in Table 3.24 below.

Table 3.24: Financial Disclosure Score of selected banks

Sr. No.	Banks	Score [out of 70]	Level of Compliance [%]
Group I Banks [Public Sector Banks]			
1	Allahabad Bank	55	78.57
2	Bank of Baroda	65	92.86
3	Bank of India	65	92.86
4	Canara Bank	50	71.43
5	IDBI Bank	70	100.00
6	Indian Overseas Bank	70	100.00
7	Oriental Bank of Commerce	70	100.00
8	Punjab National Bank	65	92.86
9	State Bank of India	70	100.00
10	Union Bank of India	70	100.00
TOTAL		650/700	92.86
Group II Banks [Private Sector Banks]			
1	Axis Bank	70	100.00
2	Federal Bank	70	100.00
3	HDFC Bank	70	100.00
4	ICICI Bank	70	100.00
5	IndusInd Bank	70	100.00
6	Karnataka Bank	70	100.00
7	Kotak Mahindra Bank	70	100.00
8	Yes Bank	65	92.86
TOTAL		555/560	99.11

Table 3.24 shows that out of ten public sector banks under Group I, five banks have full compliance with the financial disclosures, which are IDBI Bank, Indian Overseas Bank, Oriental Bank of Commerce, State Bank of India and Union Bank of India. Whereas three banks are at similar position with 92.86% compliance, these are Bank of Baroda, Bank of India and Punjab National Bank. Allahabad Bank has score of 55 with 78.57% of compliance and the bank with the least compliance is Canara Bank with 71.43% level of compliance. Whereas in private sector banks under Group II, out of eight banks, seven banks have fully compliance with the financial disclosures and only one bank is there with the less disclosure which is Yes Bank [92.86%]. Again, among all the selected banks, the Canara Bank has the least compliance [71.43%]. Group wise score shows the 92.86% compliance in Group I banks and highest 99.11% compliance in private sector banks.

3.5 Analysis of Non Financial Disclosures Index of the Selected Banks

After analyzing the financial disclosure index of selected bank, researcher has analysed the non financial disclosure index of selected banks[as shown in Table 3.5]. In non financial disclosure, total items are 39 and the maximum score is 195. Here again, the methodology is same. Means, analysis is presented group wise, starting with Group I banks.

3.5.1 Analysis of Non Financial Disclosure Index of Group I Banks:

Table 3.25 shows the analysis of non financial disclosures of Allahabad Bank. The bank has got the score of 149 from total score of 195. So the level of compliance of non financial disclosures of the bank is 76.41%. The non financial disclosures where the Allahabad Bank is lacking are many. Like the bank did not disclose its vision and mission statement anywhere. Bank had not shown the shareholders rights also. There was a duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclose the organizational code of ethics, stock ownership by directors, internal control system, auditors' appointment and rotation and green initiative practices. Even bank had not get any awards or recognitions for corporate governance so also lose that score and finally, the annual report of the bank was not available online for 2006-07, so that is also one lacking point. Thus out of total 39 criteria, the Allahabad Bank had fulfilled the 30, and remaining were incomplete.

Table 3.25 Analysis of Non Financial Disclosures of Allahabad Bank

Sr. No.	Disclosure Item	Allahabad Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	0	0	0	0	0	0
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	0	0	0	0	0	0
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	0	1	1	1	1	4
36	Green Initiative Practices [for 2010-11 only]			0			0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		29	30	30	30	30	149

Table 3.26 Analysis of Non Financial Disclosures of Bank of Baroda

Sr. No.	Disclosure Item	Bank of Baroda					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	1	1	1	1	1	5
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	0	0	0	0	0	0
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	0	0	0	0	0	0
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	0	0	0	0	0	0
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	0	1	1	1	1	4
36	Green Initiative Practices [for 2010-11 only]			5			5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		29	30	30	30	35	154

Table 3.26 shows the analysis of non financial disclosures of Bank of Baroda. Out of 195, the Bank of Baroda has got the score of 154. So the level of completion of non financial disclosures of the bank is 78.97%. The non financial disclosures where the Bank of Baroda is lacking are its vision and mission statement the shareholders rights and duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the stockownership by directors, industrial/employee relation, auditors' appointment and rotation and environmental responsibility. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the Bank of Baroda had fulfilled the 31, and remaining were incomplete.

Table 3.27 shows the analysis of non financial disclosures of Bank of India. Out of 195, the Bank of India has got the score of 160. So the level of completion of non financial disclosures of the bank is 82.05%. The non financial disclosures where the Bank of India is lacking are many. Like the bank has not disclosed its vision and mission statement anywhere. Bank has not shown the shareholders rights also. There was a duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the organizational code of ethics, internal control system, auditors' appointment and rotation and green initiative practices. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the Bank of India had fulfilled the 32, and remaining were incomplete.

Table 3.28 shows the analysis of non financial disclosures of Canara Bank. Out of 195, the Canara Bank has got the score of 138 and level of completion of non financial disclosures of the bank is 70.77%. The non financial disclosures where the Bank is lacking are message from the chairman, its vision and mission statement, duality of chairman and CEO, the organizational code of ethics, stock ownership by directors, employee/ industrial relation, environmental responsibility, internal control system, auditors' appointment and rotation and green initiative practices. Even bank had not got any awards or recognitions for corporate governance and previous annual reports were not available online, so also lose that score. Thus out of total 39 criteria, the Canara Bank had fulfilled the 27, and remaining were incomplete.

Table 3.27 Analysis of Non Financial Disclosures of Bank of India

Sr. No.	Disclosure Item	Bank of India					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	1	1	1	1	1	5
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	0	0	0	0	0	0
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]	0					0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		32	32	32	32	32	160

Table 3.28 Analysis of Non Financial Disclosures of Canara Bank

Sr. No.	Disclosure Item	Canara Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	0	0	0	0	0	0
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors’ Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	0	0	0	0	0	0
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	0	0	0	0	0	0
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	0	0	0	0	0	0
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	0	0	0	0	0	0
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	0	0	1	1	1	3
36	Green Initiative Practices [for 2010-11 only]			0			0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		27	27	28	28	28	138

Table 3.29 Analysis of Non Financial Disclosures of IDBI Bank

Sr. No.	Disclosure Item	IDBI Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors’ Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	1	1	1	1	1	5
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	0	0	0	0	0	0
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	1	1	1	1	1	5
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			5			5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		33	33	33	33	38	170

Table 3.29 shows the analysis of non financial disclosures of IDBI Bank. Out of 195, the IDBI Bank has got the score of 170. The Bank has good scoring, so the level of completion of non financial disclosures of the bank is 87.18%. The non financial disclosures where the IDBI Bank is lacking are its vision and mission statement, shareholders rights and duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the stockownership by directors, had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the IDBI Bank had fulfilled the 34, and remaining were incomplete.

Table 3.30 shows the analysis of non financial disclosures of Indian Overseas Bank. Out of 195, the Indian Overseas Bank has got the score of 160. So the level of completion of non financial disclosures of the bank is 82.05%. The non financial disclosures where the Indian Overseas Bank is lacking are duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the organizational code of ethics, environmental responsibility, internal control system, auditors' appointment and rotation and green initiative practices. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the Indian Overseas Bank had fulfilled the 32, and remaining were incomplete.

Table 3.31 shows the analysis of non financial disclosures of Oriental Bank of Commerce. Out of 195, the Oriental Bank of Commerce has got the score of 152 and level of completion of non financial disclosures of the bank is 77.95%. The non financial disclosures where the Bank is lacking are its vision and mission statement, shareholders rights, duality of chairman and CEO, the organizational code of ethics, environmental responsibility, auditors' appointment and rotation and green initiative practices. Even bank had not got any awards or recognitions for corporate governance and previous annual reports were not available online, so also lose that score. Thus out of total 39 criteria, the Oriental Bank of Commerce had fulfilled the 31, and remaining were incomplete.

Table 3.30 Analysis of Non Financial Disclosures of Indian Overseas Bank

Sr. No.	Disclosure Item	Indian Overseas Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	1	1	1	1	1	5
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	0	0	0	0	0	0
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	0	0	0	0	0	0
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			0			0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		32	32	32	32	32	160

Table 3.31 Analysis of Non Financial Disclosures of Oriental Bank of Commerce

Sr. No.	Disclosure Item	OBC					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors’ Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	0	0	0	0	0	0
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	0	0	0	1	1	2
36	Green Initiative Practices [for 2010-11 only]			0			0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		30	30	30	31	31	152

Table 3.32 Analysis of Non Financial Disclosures of Punjab National Bank

Sr. No.	Disclosure Item	Punjab National Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]	5					5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		33	33	33	33	38	170

Table 3.32 shows the analysis of non financial disclosures of Punjab National Bank. Out of 195, the Bank of Baroda has got the score of 170. So the level of completion of non financial disclosures of the bank is 87.18%. The non financial disclosures where the Punjab National Bank is lacking are its vision and mission statement duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the organizational code of ethics and auditors' appointment and rotation. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the Punjab National Bank had fulfilled the 34, and remaining were incomplete.

Table 3.33 shows the analysis of non financial disclosures of State Bank of India. Out of 195, the State Bank of India has got the score of 157. So the level of completion of non financial disclosures of the bank is 80.51%. The non financial disclosures where the Bank of India is lacking are many. Like the bank has not disclose its vision and mission statement anywhere. Bank had not shown the shareholders rights also. There was a duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the organizational code of ethics, auditors' appointment and rotation and annual reports for previous years were not available online. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the State Bank of India had fulfilled the 32, and remaining were incomplete.

Table 3.34 shows the analysis of non financial disclosures of Union Bank of India. Out of 195, the Union Bank of India has got the score of 168 and level of completion of non financial disclosures of the bank is 86.15%. The non financial disclosures where the Bank is lacking are its vision and mission statement, duality of chairman and CEO, the organizational code of ethics and auditors' appointment and rotation. The bank had got awards for corporate governance in 2009-10, but no such awards for remaining years. Previous annual reports were not available online, so also lose that score. Thus out of total 39 criteria, the Union Bank of India had fulfilled the 34, and remaining were incomplete.

Table 3.33 Analysis of Non Financial Disclosures of State Bank of India

Sr. No.	Disclosure Item	State Bank of India					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	0	0	0	0	0	0
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	0	0	0	1	1	2
36	Green Initiative Practices [for 2010-11 only]	5					5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		30	30	30	31	36	157

Table 3.34 Analysis of Non Financial Disclosures of Union Bank of India

Sr. No.	Disclosure Item	Union Bank of India					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	0	0	0	1	1	2
36	Green Initiative Practices [for 2010-11 only]	5					5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	1	0	1
TOTAL		32	32	32	34	38	168

Table 3.35 Analysis of Non Financial Disclosures of Axis Bank

Sr. No.	Disclosure Item	Axis Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	1	1	1	1	1	5
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			0			0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		33	33	33	33	33	165

Table 3.35 shows the analysis of non financial disclosures of Axis Bank. Out of 195, the Bank of Baroda has got the score of 165. So the level of completion of non financial disclosures of the bank is 84.62%. The non financial disclosures where the Axis Bank is lacking are its vision and mission statement the shareholders rights and organizational code of ethics, so bank also lose its score. Further, the bank had not disclosed the auditors’ appointment and green initiative practices. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the Bank of Baroda had fulfilled the 33, and remaining were incomplete.

Table 3.36 shows the analysis of non financial disclosures of Federal Bank. Out of 195, the Bank of India has got the score of 164. So the level of completion of non financial disclosures of the bank is 84.10%. The non financial disclosures where the Federal Bank is lacking are many. Like the bank has not disclose its vision and mission statement anywhere. Bank had not shown the shareholders rights also. Further, the bank had not disclosed the environmental responsibility, auditors’ appointment and rotation and green initiative practices. Even bank had not got any awards or recognitions for corporate governance so also lose that score and online annual reports were also not available. Thus out of total 39 criteria, the Bank of India had fulfilled the 33, and remaining were incomplete.

Table 3.37 shows the analysis of non financial disclosures of HDFC Bank. Out of 195, the HDFC Bank has got the score of 170 and level of completion of non financial disclosures of the bank is 87.18%. The non financial disclosures where the Bank is lacking are the organizational code of ethics, stock ownership by directors, internal control system and auditors’ appointment and rotation. Even bank had not got any awards or recognitions for corporate governance. Thus out of total 39 criteria, the HDFC Bank had fulfilled the 34, and remaining were incomplete. Though with compare to other banks, the level of compliance of non financial disclosers of HDFC Bank is very good.

Table 3.36 Analysis of Non Financial Disclosures of Federal Bank

Sr. No.	Disclosure Item	Federal Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	1	1	1	1	1	5
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors’ Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	1	1	1	1	1	5
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	0	0	0	0	0	0
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	0	1	1	1	1	4
36	Green Initiative Practices [for 2010-11 only]			0			0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
	TOTAL	32	33	33	33	33	164

Table 3.37 Analysis of Non Financial Disclosures of HDFC Bank

Sr. No.	Disclosure Item	HDFC Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	1	1	1	1	1	5
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	1	1	1	1	1	5
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors’ Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	0	0	0	0	0	0
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	1	1	1	1	1	5
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	0	0	0	0	0	0
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			5			5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		33	33	33	33	38	170

Table 3.38 Analysis of Non Financial Disclosures of ICICI Bank

Sr. No.	Disclosure Item	ICICI Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	1	1	1	1	1	5
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	1	1	1	1	1	5
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	0	0	0	0	0	0
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	0	0	0	0	0	0
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			5			5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		32	32	32	32	37	165

Table 3.38 shows the analysis of non financial disclosures of ICICI Bank. Out of 195, the ICICI Bank has got the score of 165. So the level of completion of non financial disclosures of the bank is 84.61%. The non financial disclosures where the ICICI Bank is lacking are its vision and mission statement and the shareholders rights and so bank also lose its score. Further, the bank had not disclosed the industrial/employee relation, auditors' appointment and rotation and environmental responsibility. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the ICICI Bank had fulfilled the 33, and remaining were incomplete.

Table 3.39 shows the analysis of non financial disclosures of IndusInd Bank. Out of 195, the IndusInd Bank has got the score of 149. So the level of completion of non financial disclosures of the bank is 76.41%. The non financial disclosures where the IndusInd Bank is lacking are many. Like the bank has not disclose message from the chairman and its vision and mission statement anywhere. There was a duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the organizational code of ethics, Employee/Industrial relation, financial inclusion norms or policy, internal control system, auditors' appointment and rotation and green initiative practices. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the IndusInd Bank had fulfilled the 31, and remaining were incomplete.

Table 3.40 shows the analysis of non financial disclosures of Karnataka Bank. Out of 195, the Karnataka Bank has got the score of 149 and level of completion of non financial disclosures of the bank is 76.41%. The non financial disclosures where the Bank is lacking are letter from the MD & CEO, its vision and mission statement, shareholders rights, duality of chairman and CEO, the organizational code of ethics, employee/ industrial relation, environmental responsibility, auditors' appointment and rotation and green initiative practices. Even bank had not got any awards or recognitions for corporate governance and previous annual reports were not available online, so also lose that score. Thus out of total 39 criteria, the Karnataka Bank had fulfilled the 30, and remaining were incomplete.

Table 3.39 Analysis of Non Financial Disclosures of IndusInd Bank

Sr. No.	Disclosure Item	IndusInd Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	0	0	1	0	0	1
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors’ Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	0	0	0	0	0	0
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	0	0	0	0	0	0
30	Internal Control System	0	0	1	1	1	3
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			0			0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		29	29	31	30	30	149

Table 3.40 Analysis of Non Financial Disclosures of Karnataka Bank

Sr. No.	Disclosure Item	Karnataka Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	0	0	0	0	0	0
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	0	0	0
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors’ Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	0	0	1	1	1	3
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	0	0	0	0	0	0
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	1	1	1	1	1	5
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			0			0
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		29	29	30	30	30	148

Table 3.41 Analysis of Non Financial Disclosures of Kotak Mahindra Bank

Sr. No.	Disclosure Item	Kotak Mahindra Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	1	1	5
2	Letter from MD & CEO	1	1	1	1	0	4
3	Vision & Mission Statement	0	0	0	0	0	0
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	1	1	1	1	1	5
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	1	1	1	1	1	5
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	0	1	1	1	0	3
27	Corporate Social Responsibility	1	1	1	0	0	3
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	0	1	1	1	1	4
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			5			5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		31	33	33	32	35	164

Table 3.42 Analysis of Non Financial Disclosures of Yes Bank

Sr. No.	Disclosure Item	Yes Bank					Score
		06-07	07-08	08-09	09-10	10-11	
1	Message from the Chairman	1	1	1	0	0	3
2	Letter from MD & CEO	1	1	1	1	1	5
3	Vision & Mission Statement	1	1	1	1	1	5
4	Ownership/ shareholding Structure/ Pattern	1	1	1	1	1	5
5	Shareholders' Rights	0	0	0	1	1	2
6	Statutory Details of the company	1	1	1	1	1	5
7	Size of the Board	1	1	1	1	1	5
8	Composition of Board	1	1	1	1	1	5
9	Chairman & CEO Duality	0	0	0	0	0	0
10	Information about independent Directors	1	1	1	1	1	5
11	Role & Functions of the Board	1	1	1	1	1	5
12	Changes in the Board Structure	1	1	1	1	1	5
13	Audit Committee	1	1	1	1	1	5
14	Remuneration & Nomination Committee	1	1	1	1	1	5
15	Investors' Grievance Redressal Committee	1	1	1	1	1	5
16	Other Committees	1	1	1	1	1	5
17	Composition of the Committees	1	1	1	1	1	5
18	Functioning of the Committees	1	1	1	1	1	5
19	Organizational Code of Ethics	0	0	0	0	0	0
20	Biography of the Board Members	1	1	1	1	1	5
21	Number of Directorship hold by each Member	1	1	1	1	1	5
22	Number of Board Meetings	1	1	1	1	1	5
23	Attendance in Board Meetings	1	1	1	1	1	5
24	Director's Stock Ownership	0	1	1	1	1	4
25	Director Remuneration	1	1	1	1	1	5
26	Employee Relation/ Industrial Relation	0	0	0	1	1	2
27	Corporate Social Responsibility	1	1	1	1	1	5
28	Environmental Responsibility	1	1	1	1	1	5
29	Financial Inclusion Norms/ Policy	1	1	1	1	1	5
30	Internal Control System	0	0	0	1	1	2
31	Auditor Appointment & Rotation	0	0	0	0	0	0
32	Auditor Fees	1	1	1	1	1	5
33	Notice and Agenda of the AGM	1	1	1	1	1	5
34	Separate CG Statement/ Section	1	1	1	1	1	5
35	Annual Report through Internet	1	1	1	1	1	5
36	Green Initiative Practices [for 2010-11 only]			5			5
37	Compliance Certificate for CG	1	1	1	1	1	5
38	Philosophy on Code of CG	1	1	1	1	1	5
39	Best Practices Recognition/ Award for CG	0	0	0	0	0	0
TOTAL		30	31	31	33	38	163

Table 3.41 shows the analysis of non financial disclosures of Kotak Mahindra Bank. Out of 195, the Kotak Mahindra Bank has got the score of 164. So the level of completion of non financial disclosures of the bank is 84.10%. The non financial disclosures where the Kotak Mahindra Bank is lacking are its vision and mission statement and duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the organizational code of ethics, industrial/employee relation, internal control systems and auditors' appointment and rotation. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the Kotak Mahindra Bank had fulfilled the 34, and remaining were incomplete.

Table 3.42 shows the analysis of non financial disclosures of Yes Bank. Out of 195, the Bank of India has got the score of 163. So the level of completion of non financial disclosures of the Yes Bank is 83.59%. The non financial disclosures where the Yes Bank is lacking are many. Like the bank has not disclosed message from the chairman, shareholders rights and there were duality of chairman and CEO, so bank also lose its score. Further, the bank had not disclosed the organizational code of ethics, directors' stock ownership for one year, employee/industrial relation, internal control system and auditors' appointment and rotation. Even bank had not got any awards or recognitions for corporate governance so also lose that score. Thus out of total 39 criteria, the Bank of India had fulfilled the 34, and remaining were incomplete.

Thus from the above analysis of non financial disclosures for the banks of each group, the overall idea of each banks group wise can be clear. This is shown in Table 3.43. It shows that the highest level of compliance [87.18%] with the score of 170 out of 195 is followed by three banks, two from Group I banks – IDBI Bank and Punjab National Bank - and one from Group II banks – HDFC Bank. The bank with the least compliance level [70.77%] is from the Group I bank and that is Canara Bank with score of only 138 from 195. Whereas in Group II banks, the Karnataka Bank has the least level of compliance [75.90%] with the score of 148 out of 195. Group wise compliance shows the 80.72% in Group I and highest 82.56% in Group II. So in financial as well as in non financial disclosures, private sector banks are leading.

Table 3.43: Non Financial Disclosure Score of Selected Banks

Sr. No.	Banks	Score [out of 195]	Level of Compliance [%]
Group I Banks [Public Sector Banks]			
1	Allahabad Bank	145	74.36
2	BOB	154	78.97
3	BOI	160	82.05
4	Canara Bank	138	70.77
5	IDBI Bank	170	87.18
6	IOB	160	82.05
7	OBC	152	77.95
8	PNB	170	87.18
9	SBI	157	80.51
10	UBI	168	86.15
TOTAL		1574/1950	80.72
Group II Banks [Private Sector Banks]			
1	Axis Bank	165	84.61
2	Federal Bank	164	84.10
3	HDFC Bank	170	87.18
4	ICICI Bank	165	84.61
5	IndusInd Bank	149	76.41
6	Karnataka Bank	148	75.90
7	K M Bank	164	84.10
8	Yes Bank	163	83.59
TOTAL		1288/1560	82.56

If financial and non financial disclosures combined, the result will show the overall picture of each bank in each group. Table 3.44 shows the total score of selected banks for corporate governance disclosure index. As per the table overall level of compliance of Group I banks is 83.92% with the score of 2224 out of 2650 and for Group II banks is 86.93% with the score of 1843 out of 2120. So it shows that private sector banks have fulfilled more criteria of corporate governance than public sector banks

Table 3.44: Total score of Selected Banks for Corporate Governance Disclosure Index

Sr. No.	Banks	Financial Disclosure Score [out of 70]	Non Financial Disclosure Score [out of 195]	Total Score [out of 265]	Level of Compli-ance [%]
Group I Banks [Public Sector Banks]					
1	Allahabad Bank	55	145	200	75.47
2	BOB	65	154	219	82.64
3	BOI	65	160	225	84.90
4	Canara Bank	50	138	188	70.94
5	IDBI Bank	70	170	240	90.57
6	IOB	70	160	230	86.79
7	OBC	70	152	222	83.77
8	PNB	65	170	235	88.68
9	SBI	70	157	227	85.66
10	UBI	70	168	238	89.81
TOTAL		**650/700**	**1574/1950**	**2224/2650**	**83.92**
Group II Banks [Private Sector Banks]					
1	Axis Bank	70	165	235	88.68
2	Federal Bank	70	164	234	88.30
3	HDFC Bank	70	170	240	90.57
4	ICICI Bank	70	165	235	88.68
5	IndusInd Bank	70	149	219	82.64
6	Karnataka Bank	70	148	218	82.26
7	K M Bank	70	164	234	88.30
8	Yes Bank	65	163	228	86.04
TOTAL		**555/560**	**1288/1560**	**1843/2120**	**86.93**

Based on the total score and level of compliance given in Table 3.44, ranks can be given to the bank group wise. Table 3.45 shows the ranking given to banks. In public sector banks [Group I] the IDBI Bank is leading with the highest score of 240 and 90.57% level of compliance. This shows the good corporate governance practices of the company. The IDBI Bank is followed by the Union Bank of India at second position which has the score of 138 with 89.91% level of compliance. The third rank goes to Punjab National Bank with score of 235 and 88.68% level of compliance. Next to the Punjab National Bank is Indian Overseas Bank at fourth position with the score of 230 and 86.79% level of compliance. One of the largest banks State Bank of India is at fifth position with 227 points and 85.66% compliance level. The next is Bank of India with 225 points and 84.90% compliance. Oriental Bank of Commerce is at seventh position with the score of 222 and 83.77%.

Table 3.45: Ranking of Banks for Corporate Governance Disclosure Index

Sr. No.	Banks	Total Score [out of 265]	CGDI [%]	Ranking
Group I Banks [Public Sector Banks]				
1	IDBI Bank	240	90.57	1
2	UBI	238	89.81	2
3	PNB	235	88.68	3
4	IOB	230	86.79	4
5	SBI	227	85.66	5
6	BOI	225	84.90	6
7	OBC	222	83.77	7
8	BOB	219	82.64	8
9	Allahabad Bank	200	75.47	9
10	Canara Bank	188	70.94	10
Group II Banks [Private Sector Banks]				
1	HDFC Bank	240	90.57	1
2	Axis Bank	235	88.68	2
3	ICICI Bank	235	88.68	
4	Federal Bank	234	88.30	3
5	K M Bank	234	88.30	
6	Yes Bank	228	86.04	4
7	IndusInd Bank	219	82.64	5
8	Karnataka Bank	218	82.26	6

Bank of Baroda is stood at eighth position with the score of 219 and 82.64% compliance. The bank with exact score of 200 is Allahabad Bank with 75.47% compliance and the only bank with the score less than 200, and the least score is Canara Bank which scored only 188 with 70.94% level of compliance.

The performance of Group II – Private Sector Banks shows that the first place is secured by the HDFC Bank with the score of 240 and 90.57% level of compliance. Banks stood at the first place under each group have got the similar score. At second place, two banks stood at similar score, the Axis Bank and ICICI Bank with the score of 235 and 88.68% compliance level. Third position is also secured by the two banks together, Federal Bank and Kotak Mahindra Bank with the score of 234, just one point less than second position banks, and 88.30% compliance. Yes Bank has secured the next position by scoring 228 points and 86.04% level of compliance. At fifth position, IndusInd Bank stands with 219 points and 82.64% compliance and in this group; the last rank has gone to the Karnataka Bank with the score of 218 points and 82.26% level of compliance.

3.6 Corporate Governance Disclosure Index items and their rankings:

Table 3.46 below shows the corporate governance disclosure index items and their rankings. The table starts with financial disclosures. As per the analysis, out of total 14 items of financial disclosures, 11 items had disclosed by all the sample banks, so it shows the 100% level of compliance. Remaining are only three items which were not disclosed by some of the banks, which are, details of subsidiaries, risk management and presentation of other financial performances like charts, graphs etc. The banks lacking details of subsidiaries were 5, details of risk management were 2 and presentations of other financial performances were only 1. Level of compliance with financial disclosures of all the banks is satisfactory with 78.57% [11/14*100]. The banks, which are lacking in some issues, they should modify it and disclose in the annual reports from the next financial year.

Whereas the second part of the same table shows the non financial items and their ranking. Out of total 39 items of non financial disclosures, 23 were fully complied by all the banks and remaining 16 were partially complied. Overall compliance ration of non financial disclosure is this 58.97% [23/39*100]. With compare to compliance of financial disclosers, the ratio is very less.

Table 3.46: Disclosure Items and their Rankings

Sr. No.	Disclosure Item	Number of Banks	Percentage
I - Financial Disclosures			
1	Directors' Report	18.0	100.00
2	Auditors Report	18.0	100.00
3	Financial Statements	18.0	100.00
4	Schedules forming part of Financial Statements	18.0	100.00
5	Details of subsidiaries	13.0	72.22
6	Consolidated Financial Statements	18.0	100.00
7	Notes on account	18.0	100.00
8	Significant Accounting Policies	18.0	100.00
9	Related Party Disclosures	18.0	100.00
10	Segment Reporting	18.0	100.00
11	Risk Management	16.0	88.89
12	BASEL - II Disclosures	18.0	100.00
13	Dividend Details	18.0	100.00
14	Other Financial Performance [Ratios/Charts/Graphs]	17.0	94.44
II - Non Financial Disclosure			
Company Objectives			
1	Message from the Chairman	15.8	87.78
2	Letter from MD & CEO	16.8	93.33
3	Vision & Mission Statement	04.0	22.22
Ownership & Shareholders' Rights			
4	Ownership/ Shareholding Structure/ Pattern	18.0	100.00
5	Shareholders' Rights	07.4	41.11
Governance Structure & Policies			
6	Statutory Details of the company	18.0	100.00
7	Size of the Board [Minimum 10 members]	18.0	100.00
8	Composition of Board	18.0	100.00
9	Chairman & CEO Duality	04 .0	22.22
10	Information about independent Directors	18.0	100.00
11	Role & Functions of the Board	18.0	100.00
12	Changes in the Board Structure	18.0	100.00
13	Audit Committee	18.0	100.00
14	Remuneration & Nomination Committee	18.0	100.00
15	Investors' Grievance Redressal Committee	18.0	100.00
16	Other Committees	18.0	100.00
17	Composition of the Committees	18.0	100.00
18	Functioning of the Committees	18.0	100.00
19	Organizational Code of Ethics	04.0	22.22

Member of the Board & Key Executives			
20	Biography of the Board Members	18.0	100.00
21	Number of Directorship hold by each Member	18.0	100.00
22	Number of Board Meetings [At least 3 in a year]	18.0	100.00
23	Attendance in Board Meetings [Minimum 80%]	18.0	100.00
24	Director's Stock Ownership	11.8	65.56
25	Director Remuneration	18.0	100.00
Material Issues Regarding Employees, Environmental & Social Stewardship			
26	Employee Relation/ Industrial Relation	12.6	70.00
27	Corporate Social Responsibility	17.6	97.78
28	Environmental Responsibility	11.0	61.11
29	Financial Inclusion Norms/ Policy	17.0	94.44
Material Foreseeable Risk Factors			
30	Internal Control System	11.8	65.56
Independence of Auditors			
31	Auditor Appointment & Rotation	01.0	05.56
32	Auditor Fees	18.0	100.00
Annual General Meeting			
33	Notice & Agenda of the AGM	18.0	100.00
Timings & Means of Disclosure			
34	Separate CG Statement/ Section	18.0	100.00
35	Annual Report through Internet	15.2	84.44
36	Green Initiative Practices [for 2010-11 only]	10.0	55.56
Best Practices for Compliance with CG			
37	Compliance Certificate for CG [Clause 49]	18.0	100.00
38	Philosophy on Code of CG	18.0	100.00
39	Best Practices Recognition/ Award for CG	00.2	01.11

Among the items which are partially complied, the least is award for best practices in corporate governance; only one bank had got only once. The next item was auditors' appointment and rotation, only one bank had shown it. After that maximum bank had duality of chairman and CEO and at the same rank, same number of banks was lacking organizational code of ethics and mission and vision statement. In remaining items, where the banks were lacking were message from the chairman, letter from MD & CEO, shareholders' rights, directors' stock ownership, employee/ industrial relations, corporate social responsibility, environmental responsibility, financial inclusion norms/policy, internal control systems and annual report through internet. Green initiative in corporate governance, which was recently introduced as a good governance practice; was followed by the 10 banks only.

Lacking of all these points shows the weak practices of corporate governance and there is a need to follow the same on urgent basis. Combine, financial and non financial disclosures, out of total 53 items, 100% compliance was there only in 34 items, so the level of compliance was 64.15%. This level of compliance triggers many questions, at international level, it is not acceptable. Being a banking organization, the responsibility of management is increased for its stakeholders, so banks should focus on this issue seriously.

3.7 Analysis of Data:

Table 3.47 below shows the descriptive statistics. That includes sample size, minimum, maximum, range, mean, median, mode, standard deviation, skewness and kurtosis. The descriptive statistics is divided in three categories for better understanding. First part shows for Group I banks, Public Sector banks, second part is for Group II – Private Sector Banks and third part is combine, showing statistics for all selected banks. This descriptive statistics is further used by the researcher for testing of hypothesis. Researcher has applied multiple regression, run test, f test, z test and coefficient correlation techniques as per the requirement and based on the collected data.

Table 3.47: Descriptive Statistics

Statistics	Total Score	CGDI	Financial Disclosure Score	Non financial Disclosure Score
Group I Banks				
N	10	10	10	10
Minimum	188	70.94	50	138
Maximum	240	90.57	70	170
Range	52	19.63	20	32
Mean	222.4	83.92	65	157.4
Median	226	85.3	67.5	159
Mode	-	-	70	160
Std Dev	16.65	6.28	7.07	10.62
Skewness	-1.21	-1.21	-1.47	-0.48
Kurtosis	0.88	0.88	1.23	-0.40

Group II Banks				
N	8	8	8	8
Minimum	218	82.26	65	148
Maximum	240	90.57	70	170
Range	22	8.31	5	22
Mean	230.4	86.93	69.38	161
Median	234	88.3	70	164
Mode	235	88.68	70	165
Std Dev	8.02	3.03	1.77	8
Skewness	-0.81	-0.81	-2.83	-1.12
Kurtosis	-0.74	-0.74	8	-0.17
Combine				
N	18	18	18	18
Minimum	188	70.94	50	138
Maximum	240	90.57	70	170
Range	52	19.63	20	32
Mean	225.9	85.26	66.94	159
Median	229	86.4	70	162
Mode	235	88.68	70	170
Std Dev	13.78	5.2	5.72	9.46
Skewness	-1.59	-1.59	-2.21	-0.73
Kurtosis	2.58	2.58	4.5	-0.31

To provide primary evidence of the impact of corporate attitudes on corporate governance disclosures of different banks, the researcher has used the following multiple regression technique.

$$\mathbf{CGDI = C + \beta_1\, INC + \beta_2\, LOCAL_t + \beta_3\, INT_t + \beta_4\, BOD_t + \beta_5\, INDP_t + \beta_6\, FIN_t + et}$$

For the purpose of multiple regression technique, researcher has takes six different variables to show the effect of each on corporate governance disclosure index. Thus CGDI is the dependent variable and remaining six are the independent variables. Details about each variable are given in table 3.48

Table 3.48: Operationalisation of the Research Variables

Variable	Acronym	Operationalisation	Expected Sign
Dependent Variable			
Corporate Governance Disclosure Index	CGDI		
Independent Variables			
Total Income (Proxy for size)	INC	Natural log of the income of the company	+
Local Ownership	LOCAL	The proportion of general ownership [summation of public, institutional and government ownership] in the banks	+
International Presence [Dummy Variable]	INT	Dichotomous with 1 if the bank has branch abroad and 0 otherwise	+
Board Size	BOD	Number of directors in the board	+
Independent Directors	INDP	Number of independent directors in the board	+
Financial Performance	FIN	Financial performance of the bank through return on assets	+

Size: The size of the reporting bank has been a major variable in most studies examining disclosure variability and several measures of size may be annual sales, total income, total assets, fixed assets, paid up capital, shareholders equity, capital employed and the market value of the firm[XCVI]. In this study, natural log of total income has been used as the proxy for the size of the company.

Ownership Pattern: Ownership pattern of Indian banks include sponsor ownership, institutional ownership, government ownership, foreign ownership and public ownership. In this study local ownership [which includes public ownership, institutional ownership and government ownership] has been used with the expectation to find any relationship with corporate governance disclosures.

International Presence: Many Indian banks have overseas branches. Detailed list is given in the Table 1. 4. Because of their operation in other countries of the world, it is expected that banks with international presence will make more corporate governance disclosure than the banks those have not. So a dummy variable has been taken where 1 for the overseas branch and 0 for the banks did not have overseas branch.

Board size: Large boards are usually more powerful than small boards and hence considered necessary for organizational effectiveness[XCVII]. For instance, as Pearce and Zahra (1991) pointed, large powerful boards help in strengthening the link between corporations and their environments provide counsel and advice regarding strategic options for the firm and play crucial role in creating corporate identity. So the board size has been considered in the multiple regression models by the researcher.

Independent Directors: Another important factor for the study of corporate governance is the number of independent directors in the board. In India, it is mandatory to keep total independent directors one half of the total board members when the chairman is executive director and when the chairman is non executive, the number of independent directors must be one third of the total board size. Thus researcher has considered this for multiple regressions.

Financial Performance: Generally sound financial performance of the organization shows the better management and vice versa. So the researcher has considered the return on assets as indicator of financial performance for each selected banks.

Before going for testing of the hypothesis, a Run Test has been performed by the researcher for testing the randomness of the observed data. Following Table 3. 49 show the outcomes from the Run Test.

Table 3.49 Statistics of Test of Randomness (Run Test) of CGDI

Test Value of CGDI	Cases < Test Value	Cases > Test Value	Total Cases	Number of Runs	Z	P - Value
86.415	9	9	18	11	0.486	0.627

Test of randomness – Run Test shows that the value of calculated score is less that the tabulate score i.e. 0.96, so the null hypothesis is failed to reject. So on the basis of Run Test; the score of CGDI is randomly distributed.

After testing the randomness of the CGDI, the technique of multiple regressions is applied to find out the relationship of CGDI with other factors. As shown in the formula of multiple regressions, the dependent variable is CGDI, which is shown in Table 3.45 for both groups of banks. Whereas for independent variables, researcher has taken the data as under.

Table 3.50: Total Average Income of Group I and II Banks [Rs in crores]

Banks	Years					Average Income	Ranks
	2010-11	2009-10	2008-09	2007-08	2006-07		
Group I Banks [Public Sector Banks]							
SBI	96,329.45	85,962.07	76,479.78	58,348.74	46,937.79	72,811.57	1
PNB	30,599.06	25,032.22	22,245.85	16,262.58	12,881.12	21,404.17	2
Cnr Bank	25,890.99	21,752.78	19,546.15	16,509.05	12,876.36	19,315.07	3
BOI	24,393.49	20,494.63	19,399.22	14,472.15	10,743.28	17,900.55	4
BOB	24,695.11	19,504.70	17,849.24	13,864.52	10,594.43	17,301.60	5
IDBI Bank	20,704.38	17,614.59	13,107.35	9,772.10	7,392.16	13,718.12	6
UBI	18,491.40	15,277.42	13,371.93	10,679.97	8,223.98	13,208.94	7
IOB	13,379.49	11,442.36	11,354.47	9,043.71	6,694.83	10,382.97	8
OBC	13,047.88	11,457.17	9,927.79	6,978.11	5,530.47	9,388.28	9
Allah Bank	12,386.34	9,885.10	8,620.30	7,244.43	5,365.81	8,700.40	10
Group II Banks [Private Sector Banks]							
ICICI Bank	33,082.96	32,999.36	39,210.31	39,667.19	29,957.24	34,983.41	1
HDFC Bank	24,361.72	19,983.52	19,802.89	12,320.38	8,399.26	16,973.55	2
Axis Bank	19,786.94	15,583.80	13,732.37	8,755.91	5,546.89	12,681.18	3
Fed Bank	4,568.84	4,204.15	3,831.16	2,910.43	2,119.94	3,526.90	4
KM Bank	4,811.12	3,676.59	3,222.70	2,845.84	1,641.93	3,239.64	5

Ind Bank	4,303.02	3,260.47	2,765.72	2,217.81	1,784.50	2,866.30	6
Yes Bank	4,665.02	2,945.24	2,438.34	1,671.50	788.32	2,501.68	7
Karn Bank	2,662.61	2,354.68	2,270.55	1,808.25	1,441.24	2,107.47	8
Combined [Group I and Group II Banks]							
SBI	96,329.45	85,962.07	76,479.78	58,348.74	46,937.79	72,811.57	1
ICICI Bank	33,082.96	32,999.36	39,210.31	39,667.19	29,957.24	34,983.41	2
PNB	30,599.06	25,032.22	22,245.85	16,262.58	12,881.12	21,404.17	3
Cnr Bank	25,890.99	21,752.78	19,546.15	16,509.05	12,876.36	19,315.07	4
BOI	24,393.49	20,494.63	19,399.22	14,472.15	10,743.28	17,900.55	5
BOB	24,695.11	19,504.70	17,849.24	13,864.52	10,594.43	17,301.60	6
HDFC Bank	24,361.72	19,983.52	19,802.89	12,320.38	8,399.26	16,973.55	7
IDBI Bank	20,704.38	17,614.59	13,107.35	9,772.10	7,392.16	13,718.12	8
UBI	18,491.40	15,277.42	13,371.93	10,679.97	8,223.98	13,208.94	9
Axis Bank	19,786.94	15,583.80	13,732.37	8,755.91	5,546.89	12,681.18	10
IOB	13,379.49	11,442.36	11,354.47	9,043.71	6,694.83	10,382.97	11
OBC	13,047.88	11,457.17	9,927.79	6,978.11	5,530.47	9,388.28	12
Allah Bank	12,386.34	9,885.10	8,620.30	7,244.43	5,365.81	8,700.40	13
Fed Bank	4,568.84	4,204.15	3,831.16	2,910.43	2,119.94	3,526.90	14
KBM	4,811.12	3,676.59	3,222.70	2,845.84	1,641.93	3,239.64	15
Ind Bank	4,303.02	3,260.47	2,765.72	2,217.81	1,784.50	2,866.30	16
Yes Bank	4,665.02	2,945.24	2,438.34	1,671.50	788.32	2,501.68	17
Karn Bank	2,662.61	2,354.68	2,270.55	1,808.25	1,441.24	2,107.47	18

Table 3.50 shows the total average income of the selected banks group wise and combined. If analysed group wise, in Group I banks, State Bank of India enjoys the first position followed by the Punjab National Bank and Canara Bank. The public sector bank with the least average total income is Allahabad Bank. In Group II banks, ICICI Bank is at the top position which is followed by HDFC Bank and Axis Bank. If

analysed the average total income combine, the bank with highest average total income is State Bank of India followed by ICICI Bank. But the difference of average income between first two banks is more than double. It gives the idea of turnover and branch network of State Bank of India. Last position goes to Karnataka Bank. If compared both groups, the average total income of Group I banks [Public Sector Banks] much higher than of Group II [Private Sector Banks]. That also shows the popularity and market share of Public Sector Banks in India.

Table 3.51 shows the local ownership pattern of each selected bank. Here local ownership includes the shareholding pattern explained in Table 3.48. In the banks of Group I, the IDBI Bank is on the top with local ownership of 93.59%, followed by the SBI [88.79%] and Indian Overseas Bank [87.67%]. The bank with the least local ownership is Punjab National Bank with 81.29%. Group II banks have less local ownership with compare to Group I banks, as they are private, foreign institutional and retail investors more interested. So the private sector bank with the maximum local ownership is Kotak Mahindra Bank with 71.71%, followed by HDFC Bank [70.90%] and Karnataka Bank [68.82%]. The bank at last is Yes Bank with only 46.73% local ownership. It should be noted that in combine ranking, all the public sector banks are above the private sector banks in local ownership

Table 3.51: Local Ownership Pattern of Group I and II Banks [%]

Banks	Years					Average	Ranks
	2010-11	2009-10	2008-09	2007-08	2006-07		
Group I Banks [Public Sector Banks]							
IDBI Bank	95.53	92.49	95.40	94.83	89.71	93.59	1
SBI	87.08	89.77	91.95	87.12	88.05	88.79	2
IOB	93.16	90.72	91.48	81.04	81.97	87.67	3
Cnr Bank	84.99	88.33	88.69	86.00	82.79	86.16	4
OBC	86.16	84.81	90.33	81.86	80.92	84.82	5
Allah Bank	84.87	86.89	89.65	81.40	80.45	84.65	6
BOI	85.27	84.44	85.10	84.23	83.79	84.57	7
UBI	84.92	82.54	85.88	80.48	80.33	82.83	8
BOB	82.91	82.88	85.83	79.59	79.15	82.07	9
PNB	80.65	80.87	85.11	79.93	79.91	81.29	10

Group II Banks [Private Sector Banks]							
KM Bank	68.93	70.16	70.27	73.16	76.01	71.71	1
HDFC Bank	70.25	72.16	72.31	72.34	67.43	70.90	2
Karn Bank	74.77	73.15	66.70	59.95	69.53	68.82	3
Axis Bank	62.12	66.32	74.88	64.55	62.36	66.05	4
ICICI Bank	60.52	62.22	63.36	59.23	54.95	60.06	5
Fed Bank	58.87	59.96	55.57	52.47	57.73	56.92	6
Ind Bank	43.26	47.25	52.19	47.20	50.04	47.99	7
Yes Bank	48.86	41.95	49.47	44.15	49.20	46.73	8
Combined [Group I and Group II Banks]							
IDBI Bank	95.53	92.49	95.40	94.83	89.71	93.59	1
SBI	87.08	89.77	91.95	87.12	88.05	88.79	2
IOB	93.16	90.72	91.48	81.04	81.97	87.67	3
Cnr Bank	84.99	88.33	88.69	86.00	82.79	86.16	4
OBC	86.16	84.81	90.33	81.86	80.92	84.82	5
Allah Bank	84.87	86.89	89.65	81.40	80.45	84.65	6
BOI	85.27	84.44	85.10	84.23	83.79	84.57	7
UBI	84.92	82.54	85.88	80.48	80.33	82.83	8
BOB	82.91	82.88	85.83	79.59	79.15	82.07	9
PNB	80.65	80.87	85.11	79.93	79.91	81.29	10
KM Bank	68.93	70.16	70.27	73.16	76.01	71.71	11
HDFC Bank	70.25	72.16	72.31	72.34	67.43	70.90	12
Karn Bank	74.77	73.15	66.70	59.95	69.53	68.82	13
Axis Bank	62.12	66.32	74.88	64.55	62.36	66.05	14
ICICI Bank	60.52	62.22	63.36	59.23	54.95	60.06	15
Fed Bank	58.87	59.96	55.57	52.47	57.73	56.92	16
Ind Bank	43.26	47.25	52.19	47.20	50.04	47.99	17
Yes Bank	48.86	41.95	49.47	44.15	49.20	46.73	18

Table 3.52 shows the presence of selected banks in abroad. International presence is taken as dummy variable by the researcher. So 1 is denoted for international presence of the bank and 0 is denoted otherwise. If analysed the table, Group I banks have the maximum presence overseas.

Table 3.52: International Presence of Group I and II Banks

Banks	Overseas Branches	Score for Regression
Group I Banks		
Bank of Baroda	47	1
State Bank of India	45	1
Bank of India	24	1
Indian Overseas Bank	06	1
Canara Bank	04	1
Punjab National Bank	04	1
IDBI Bank	01	1
Allahabad Bank	01	1
Union Bank of India	01	1
Oriental Bank of Commerce	00	0
Group II Banks		
ICICI Bank	08	1
Axis Bank	03	1
HDFC Bank	02	1
Federal Bank	00	0
IndusInd Bank	00	0
Karnataka Bank	00	0
Kotak Mahindra Bank	00	0
Yes Bank	00	0

Source: RBI Statistics Hand Book, 2010-11

Out of total ten banks, nine public sector banks have overseas branches. Bank of Baroda was on top with total 47 branches followed by State Bank of India with 45 branches and Bank of India with 24 branches. Only one bank – Oriental Bank of Commerce did not have any overseas branches. On the other hand, from Group II banks, only three banks, each possessed one overseas branch. Remaining five banks did not have any branches overseas.

Table 3.53: Average Board Size of Group I and II Banks

Banks	Years					Average Board Size	Ranks
	2010-11	2009-10	2008-09	2007-08	2006-07		
Group I Banks [Public Sector Banks]							
Cnr Bank	12	11	13	14	14	12.8	1
SBI	14	13	12	12	13	12.8	
UBI	12	12	14	13	11	12.4	2
BOB	12	12	12	14	11	12.2	3
IOB	12	12	12	13	12	12.2	
OBC	11	14	13	13	10	12.2	
BOI	11	12	12	14	11	12.0	4
PNB	11	13	13	12	11	12.0	
Allah Bank	12	11	13	13	10	11.8	5
IDBI Bank	10	10	11	11	12	10.8	6
Group II Banks [Private Sector Banks]							
ICICI Bank	12	17	16	16	17	15.6	1
Axis Bank	14	12	10	11	11	11.6	2
HDFC Bank	10	11	11	12	9	10.6	3
Ind Bank	9	10	10	10	13	10.4	4
Karn Bank	11	11	10	10	9	10.2	5
K M Bank	9	9	10	10	9	9.4	6
Fed Bank	8	9	9	9	10	9.0	7
Yes Bank	7	9	9	9	9	8.6	8
Combined [Group I and Group II Banks]							
ICICI Bank	12	17	16	16	17	15.6	1
Cnr Bank	12	11	13	14	14	12.8	2
SBI	14	13	12	12	13	12.8	2
UBI	12	12	14	13	11	12.4	3
BOB	12	12	12	14	11	12.2	4
IOB	12	12	12	13	12	12.2	4
OBC	11	14	13	13	10	12.2	4
BOI	11	12	12	14	11	12.0	5
PNB	11	13	13	12	11	12.0	5
Allah Bank	12	11	13	13	10	11.8	6
Axis Bank	14	12	10	11	11	11.6	7

IDBI Bank	10	10	11	11	12	10.8	8
HDFC Bank	10	11	11	12	9	10.6	9
Ind Bank	9	10	10	10	13	10.4	10
Karn Bank	11	11	10	10	9	10.2	11
K M Bank	9	9	10	10	9	9.4	12
Fed Bank	8	9	9	9	10	9.0	13
Yes Bank	7	9	9	9	9	8.6	14

Table 3.53 shows the number of board members in each selected banks for five years and its average. In Group I banks, Canara Bank and State Bank of India are leading with average board size of 12.8 members followed by Union Bank of India [12.4 members] and Bank of Baroda and Indian Overseas Bank jointly at third place with average 12.2 members. IDBI Bank had the least board size, average 6 members only. Whereas in Group II banks, ICICI Bank is on top with the highest number of board size of 15.6 members average followed by Axis Bank [11.6 members] and HDFC Bank [10.6 members]. If both groups compared, again the ICICI Bank is on top followed by Canara Banks and State Bank of India jointly at second position and Union Bank of India at third position. With compare to private sector banks, public sector bank had the appropriate board members.

Table 3.54 below shows the percentage of independent directors in the boards of the selected banks for five years and also shows the average percentage of independent directors. in Group I banks, Bank of Baroda is on the top with 70.71% directors as non executive [independent] directors followed by IDBI Bank and Punjab National Bank. Public Sector Bank with the least non executive directors is Canara Bank, which had only 37.58% of total board as independent directors. Whereas in Group II – Private sector banks, Karnataka Bank is leading with highest portion of independent directors in the board with 84.73% followed by Federal Bank and IndusInd Bank. In private sector banks, bank with the least number of independent directors was HDFC Bank with 45.18% only. Though with compare to public sector banks, boards of private sector banks were having more portions of independent directors that show the good sign of corporate governance practices. As per the norms given in the Clause 49 of Listing Agreement, the ideal ratio of independent directors is 50%.

Table 3.54: Independent Directors in Group I and II Banks [% of total board size]

Banks	Years					Average [%]	Ranks
	2010-11	2009-10	2008-09	2007-08	2006-07		
Group I Banks [Public Sector Banks]							
BOB	75.00	75.00	75.00	64.29	64.29	70.71	1
IDBI Bank	60.00	60.00	54.55	54.55	63.64	58.55	2
PNB	54.55	53.85	53.85	50.00	50.00	52.45	3
IOB	50.00	50.00	50.00	53.85	53.85	51.54	4
SBI	50.00	53.85	50.00	50.00	50.00	50.77	5
OBC	54.55	50.00	53.85	53.85	38.46	50.14	6
UBI	50.00	50.00	50.00	46.15	38.46	46.92	7
BOI	45.45	41.67	41.67	35.71	35.71	40.04	8
Allah Bank	41.67	36.36	38.46	38.46	38.46	38.68	9
Cnr Bank	41.67	36.36	38.46	35.71	35.71	37.58	10
Group II Banks [Private Sector Banks]							
Karn Bank	81.82	81.82	90.00	90.00	80.00	84.73	1
Fed Bank	75.00	66.67	66.67	77.78	88.89	75.00	2
Ind Bank	55.56	60.00	70.00	70.00	90.00	69.11	3
ICICI Bank	58.33	64.71	75.00	75.00	50.00	64.61	4
Yes Bank	71.43	66.67	66.67	44.44	55.56	60.95	5
Axis Bank	57.14	58.33	60.00	63.64	63.64	60.55	6
KM Bank	66.67	55.56	60.00	60.00	50.00	58.44	7
HDFC Bank	60.00	45.45	45.45	41.67	33.33	45.18	8
Combined [Group I and Group II Banks]							
Karn Bank	81.82	81.82	90.00	90.00	80.00	84.73	1
Fed Bank	75.00	66.67	66.67	77.78	88.89	75.00	2
BOB	75.00	75.00	75.00	64.29	64.29	70.71	1
Ind Bank	55.56	60.00	70.00	70.00	90.00	69.11	3
ICICI Bank	58.33	64.71	75.00	75.00	50.00	64.61	4
Yes Bank	71.43	66.67	66.67	44.44	55.56	60.95	5
Axis Bank	57.14	58.33	60.00	63.64	63.64	60.55	6
IDBI Bank	60.00	60.00	54.55	54.55	63.64	58.55	2

KM Bank	66.67	55.56	60.00	60.00	50.00	58.44	7
PNB	54.55	53.85	53.85	50.00	50.00	52.45	3
IOB	50.00	50.00	50.00	53.85	53.85	51.54	4
SBI	50.00	53.85	50.00	50.00	50.00	50.77	5
OBC	54.55	50.00	53.85	53.85	38.46	50.14	6
UBI	50.00	50.00	50.00	46.15	38.46	46.92	7
HDFC Bank	60.00	45.45	45.45	41.67	33.33	45.18	8
BOI	45.45	41.67	41.67	35.71	35.71	40.04	8
Allah Bank	41.67	36.36	38.46	38.46	38.46	38.68	9
Cnr Bank	41.67	36.36	38.46	35.71	35.71	37.58	10

Table 3.55 shows the financial performance of each selected banks in terms of return on assets. In this table, return on assets for each bank group wise and combine is shown. In Group I banks, the State Bank of India is on the top with the highest return of Rs. 869.212 crores, followed by the Punjab National Bank [Rs. 445.524 crores] and Bank of Baroda [Rs. 368.776 crores]. The public sector bank with the least return on assets is Indian Overseas Bank with average Rs. 103.138 crores only.

Table 3.55: Financial Performance of Group I and II Banks [Return on Assets]

Banks	Years					Average RoA [%]	Ranks
	2010-11	2009-10	2008-09	2007-08	2006-07		
Group I Banks [Public Sector Banks]							
SBI	1,023.40	1,038.76	912.73	776.48	594.69	869.212	1
PNB	632.48	514.77	416.74	341.98	321.65	445.524	2
BOB	536.16	414.71	352.37	303.18	237.46	368.776	3
Cnr Bank	405.00	305.83	244.87	202.33	197.83	271.172	4
OBC	349.97	292.19	257.54	230.54	223.53	270.754	5
BOI	292.26	243.75	224.39	168.06	117.89	209.270	6
UBI	211.31	174.37	139.66	111.33	93.71	146.076	7
Allah Bank	160.50	131.73	111.45	117.47	100.22	124.274	8
IDBI Bank	128.69	113.50	102.71	93.82	86.09	104.962	9
IOB	131.96	116.54	109.06	87.05	71.08	103.138	10

Group II Banks [Private Sector Banks]							
ICICI Bank	478.31	463.01	444.94	417.64	270.37	414.854	1
HDFC Bank	545.53	470.19	344.44	324.38	201.42	377.192	2
Axis Bank	462.77	395.99	284.50	245.13	120.80	301.838	3
Fed Bank	298.34	273.90	252.57	229.16	174.71	245.736	4
Karn Bank	129.08	136.80	128.89	113.69	102.08	122.108	5
KM Bank	92.74	130.40	112.98	104.26	50.95	98.266	6
Yes Bank	109.29	90.96	54.69	44.59	28.11	65.528	7
Ind Bank	81.95	52.71	40.21	34.69	33.04	48.520	8
Combined [Group I and Group II Banks]							
SBI	1,023.40	1,038.76	912.73	776.48	594.69	869.212	1
PNB	632.48	514.77	416.74	341.98	321.65	445.524	2
ICICI Bank	478.31	463.01	444.94	417.64	270.37	414.854	3
HDFC Bank	545.53	470.19	344.44	324.38	201.42	377.192	4
BOB	536.16	414.71	352.37	303.18	237.46	368.776	5
Axis Bank	462.77	395.99	284.50	245.13	120.80	301.838	6
Cnr Bank	405.00	305.83	244.87	202.33	197.83	271.172	7
OBC	349.97	292.19	257.54	230.54	223.53	270.754	8
Fed Bank	298.34	273.90	252.57	229.16	174.71	245.736	9
BOI	292.26	243.75	224.39	168.06	117.89	209.270	10
UBI	211.31	174.37	139.66	111.33	93.71	146.076	11
Allah Bank	160.50	131.73	111.45	117.47	100.22	124.274	12
Karn Bank	129.08	136.80	128.89	113.69	102.08	122.108	13
IDBI Bank	128.69	113.50	102.71	93.82	86.09	104.962	14
IOB	131.96	116.54	109.06	87.05	71.08	103.138	15
KM Bank	92.74	130.40	112.98	104.26	50.95	98.266	16
Yes Bank	109.29	90.96	54.69	44.59	28.11	65.528	17
Ind Bank	81.95	52.71	40.21	34.69	33.04	48.520	18

In Group II of public sector bank, the bank which is leading was ICICI Bank with average return of Rs. 414.854 crores, followed by HDFC Bank [Rs. 377.192 crores] and Axis Bank [Rs. 301.838 crores]. The private bank with the least return on assets employed was IndusInd Bank with average of Rs. 48.520 crores only. If all selected banks jointly compared, the first two positions are secured by Public Sector Banks – State Bank of India and Punjab National Bank, ICICI Bank has got the third position. Further, the average return on assets of State Bank of India is very high, as bank at position of number two has almost half of that. So from this analysis it is clear that the performance of Indian Public Sector banks is very sound and public sector banks have considerable market share, even after the entry of many private sector as well as foreign banks.

Table 3.56 above shows the final combined data of Group I banks and Group II banks for dependent variable and all six independent variables for the purpose of multiple regression and correlation analysis for testing of hypothesis. The detailed meaning of all the variables is given in the Table 3.48. Followings are the results of multiple regression analysis which is performed by using SPSS.

Table 3.56: Data for Regression & Correlation Analysis of Group I and II Banks

Banks	CGDI	INC	LOCAL	INT	BOD	INDP	FIN
Group I Banks							
Allah Bank	75.47	8,700.40	84.65	1	11.80	38.68	124.274
BOB	82.64	17,301.60	82.07	1	12.20	70.71	368.776
BOI	84.90	17,900.55	84.57	1	12.00	40.04	209.270
Cnr Bank	70.94	19,315.07	86.16	1	12.80	37.58	271.172
IDBI Bank	90.57	13,718.12	93.59	1	10.80	58.55	104.962
IOB	86.79	10,382.97	87.67	1	12.20	51.54	103.138
OBC	83.77	9,388.28	84.82	0	12.20	50.14	270.754
PNB	88.68	21,404.17	81.29	1	12.00	52.45	445.524
SBI	85.66	72,811.57	88.79	1	12.80	50.77	869.212
UBI	89.81	13,208.94	82.83	1	12.40	46.92	146.076
Group II Banks							
Axis Bank	88.68	12,681.18	66.05	1	11.60	60.55	301.838
Fed Bank	88.30	3,526.90	56.92	0	9.00	75.00	245.736
HDFC Bank	90.57	16,973.55	70.90	1	10.60	45.18	377.192
ICICI Bank	88.68	34,983.41	60.06	1	15.60	64.61	414.854
Ind Bank	82.64	2,866.30	47.99	0	10.40	69.11	48.520
Karn Bank	82.26	2,107.47	68.82	0	10.20	84.73	122.108
KM Bank	88.30	3,239.64	71.71	0	9.40	58.44	98.266
Yes Bank	86.04	2,501.68	46.73	0	8.60	60.95	65.528

Table 3.57: Descriptive Statistics

Variables	Mean	Std Deviation	N
CGDI*	85.2611	5.20046	18
Average Total Income	15722.8778	16541.67375	18
Local Ownership	74.7567	14.30037	18
International Presence	.6667	.48507	18
Size of the Board	11.4778	1.65087	18
Independent Directors	56.4417	13.03989	18
Financial Performance	254.8444	198.10046	18

* Dependent Variable

Table 3.57 shows the descriptive statistics of all the variables. Here CGDI is dependent variable and all remaining six variables are independent variables as shown in first column. The second column shows the mean of each variables, standard deviation is given in the third column and the last column shows the total number of samples, which are 18 – all the selected banks combine from Group I and Group II banks.

Table 3.58: Correlation Matrix

Variables	CGDI	INC	LOCAL	INT	BOD	INDP	FIN
CGDI	**1.000**	.032	-.*311*	-.*091*	-.*161*	.458	.096
INC	.032	**1.000**	.358	.518	.597	-.*258*	.909
LOCAL	-.*311*	.358	**1.000**	.607	.427	-.*568*	.263
INT	-.*910*	.518	.607	**1.000**	.666	-.*555*	.415
BOD	-.*161*	.597	.427	.666	**1.000**	-.*343*	.485
INDP	.458	-.*258*	-.*568*	-.*555*	-.*343*	**1.000**	-.*138*
FIN	.096	.909	.263	.415	.485	-.*138*	**1.000**

Table 3.58 shows the correlation matrix. It shows the correlation between each pair of dependent and independent variables. Here dependent variable is CGDI and all remaining six variables are independent. From the above result of correlation matrix, following results have been derived by the researcher:

- CGDI being the dependent variable is negatively related with three of the independent variables which are local ownership, international presence and size of the board respectively. Whereas remaining three are positively related with the same which are income, independent directors and financial performance.
- The second variable is income, which is the proxy variable for size. The correlation matrix shows that income is negatively related with only one variable that is independent directors, and for remaining all variables, it is positively correlated.
- The third variable is the portion of local ownership in total shareholding pattern of the bank. This variable is negatively correlated with two variables which are CGDI and independent directors. Other than that, it is positively correlated with remaining all variables.
- Fourth variable is the international presence of the bank. This variable was taken as dummy variable. It is negatively correlated with the CGDI and independent directors. With remaining all variables, it is positively correlated.
- Fifth variable is the size of the board. It denotes the total number of directors in each bank. This variable is also negatively related with the two variables which are CGDI and independent directors. With remaining all variables, it is positively correlated.
- Sixth variable is independent directors. it shows the portion of independent directors in board of each banks. As per the correlation matrix, this variable is positively correlated only with CGDI, and with remaining all it is negatively correlated.
- Seventh and last variable is financial performance of the company which is shown through return on assets. This variable is negatively correlated with only independent directors, and with remaining all variables, it is positively correlated.

Table 3.59: Regression Model Summary

R	R^2	Adjusted R^2	Std Error	Change Statistics				
				R^2 Change	F Change	df1	df2	Sig F Change
.567	.321	-.049	5.32756	.321	.866	6	11	.548

Table 3.59 shows the summary of multiple regression model which is performed by the researcher through SPSS. The result shows the value of R is .567, and value of R^2 is .321. This shows that 32.10% of the output variable's variance is explained by the input variables i.e. dependent and independent variables. Whereas adjusted R^2 stands at -.049, which shows that with putting the new variable in the equation, chances of improvement in the R square are very less.

Table 3.60: ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	147.550	6	24.592	.866	.548
Residual	312.212	11	28.383		
Total	459.761	17			

a: Dependent Variable is CGDI

Table 3.60 explains the results of analysis of variance. Here significance of f is .548 which shows that the regression output could have been obtained by chance at by that percentage.

Table 3.61 shows the result of coefficients performed under the test of multiple regressions. Here researcher has considered the unstandardized coefficients as well as the standardized coefficients using beta version at 95% level of confidence. Standardized coefficient of CGDI shows that change in the independent variables will increase CGDI by 85.756% overall and for each independent separately is also given in the same column. Same way change in income will lead the change in CGDI by 4.38%, change in local ownership may change CGDI negatively by -.079%, change in international presence may change CGDI with4.469%, change in size of the board may change the CGDI negatively by -.887%, change in independent directors may change in CGDI by .205% and last variable of financial performance may change the CGDI by .002%. The same way values at standardize coefficients are also provided in the table.

Last two columns show the correlation and Collinearity statistics. The correlations are given for zero order, partial and part. As per that there are negative correlations founded in three variables – income, local ownership and international presence.

Table 3.62: Collinearity Diagnostics[a]

Dimension	Eigenvalue	Condition Index	Variance Proportions						
			CGDI	INC	LOCAL	INT	BOD	INDP	FIN
1	6.058	1.000	.00	.00	.00	.00	.00	.00	.00
2	.616	3.135	.00	.05	.00	.01	.00	.01	.02
3	.244	4.981	.00	.01	.00	.37	.00	.01	.03
4	.038	12.627	.00	.53	.07	.27	.01	.06	.57
5	.029	14.404	.00	.29	.21	.18	.00	.31	.35
6	.011	23.670	.02	.05	.43	.07	.44	.37	.02
7	.004	40.596	.97	.06	.29	.10	.55	.24	.01

a: Dependent Variable is CGDI

Table 3.62 shows the Collinearity diagnostics among the selected dependent and independent variables. The dependent variable which is CGDI has eigenvalu of 6.058 with condition index of 1. CGDI has Collinearity with independent variable is almost negligible in four cases, only with independent directors it is .02 and with financial performance it is .97. Same way table shows the Collinearity of all variables with each other. In which, financial performance and international presence has the high Collinearity with six variable out of seven variables. In remaining all variables, the Collinearity level is mix. So overall outcome of Collinearity diagnostics is satisfactory and average.

After applying the regression and correlation analysis, the researcher has used the same data for the performance of ranking to each selected banks on the basis of their individual rank in each of the variables. For this purpose, researcher has developed following table 3.63 which shows the ranking of each bank in each individual variable. For example State Bank of India has got first rank in four variables, second rank in one variable and fifth rank in two variables out of total seven, so the total of rank is 16. After ranking, the total of ranks of all variable is calculated and on the basis of that, average is found. So here lower the average/score better it is.

Table 3.63 shows the details of ranks given to each banks. Here researcher has given the ranks on the basis of performance/rank of each bank in individual variable.

For the purpose of analysis, individual rank got by the banks is allotted again and total of that score is calculated. After that average is calculated and on the basis of this average, overall ranks are given to the banks from smallest to largest, group wise and jointly. The bank with the least average ranked first.

As per the overall performance, in Group I banks, State Bank of India leads with average of 2.29, followed by the Punjab National Bank [3.57] and IDBI Bank [3.71]. The bank at last rank in public sector banks is Allahabad Bank with the average score of 6.86.

Table 3.63: Overall Ranking of selected Banks

Banks	CG-DI	INC	LO-CAL	INT	BOD	IN-DP	FIN	Sc-ore	Ave-rage	Rank
Group I Banks										
SBI	5	1	2	1	1	5	1	16	2.29	1
PNB	3	2	10	1	4	3	2	25	3.57	2
IDBI Bank	1	6	1	1	6	2	9	26	3.71	3
BOB	8	5	9	1	3	1	3	30	4.29	4
Cnr Bank	10	3	4	1	1	10	4	33	4.71	5
IOB	4	8	3	1	3	4	10	33	4.71	6
UBI	2	7	8	1	2	7	7	34	4.86	7
OBC	7	9	5	0	3	6	5	35	5.00	8
BOI	6	4	7	1	4	8	6	36	5.14	9
Allah Bank	9	10	6	1	5	9	8	48	6.86	10
Group II Banks										
ICICI Bank	2	1	5	1	1	4	1	15	2.14	1
HDFC Bank	1	2	2	1	3	8	2	19	2.71	2
Axis Bank	2	3	4	1	2	6	3	21	3.00	3
Fed Bank	3	4	6	0	7	2	4	26	3.71	4
Karn Bank	6	8	3	0	5	1	5	28	4.00	5
KM Bank	3	5	1	0	6	7	6	28	4.00	
Ind Bank	5	6	7	0	4	3	8	33	4.71	6
Yes Bank	4	7	8	0	8	5	7	39	5.57	7

Combined [Group I and Group II Banks]									
ICICI Bank	2	1	5	1	1	4	1	15	2.14	1
SBI	5	1	2	1	1	5	1	16	2.29	2
HDFC Bank	1	2	2	1	3	8	2	19	2.71	3
Axis Bank	2	3	4	1	2	6	3	21	3.00	4
PNB	3	2	10	1	4	3	2	25	3.57	5
IDBI Bank	1	6	1	1	6	2	9	26	3.71	6
Fed Bank	3	4	6	0	7	2	4	26	3.71	
Karn Bank	6	8	3	0	5	1	5	28	4.00	7
KM Bank	3	5	1	0	6	7	6	28	4.00	
BOB	8	5	9	1	3	1	3	30	4.29	8
Cnr Bank	10	3	4	1	1	10	4	33	4.71	9
IOB	4	8	3	1	3	4	10	33	4.71	
Ind Bank	5	6	7	0	4	3	8	33	4.71	
UBI	2	7	8	1	2	7	7	34	4.86	10
OBC	7	9	5	0	3	6	5	35	5.00	11
BOI	6	4	7	1	4	8	6	36	5.14	12
Yes Bank	4	7	8	0	8	5	7	39	5.57	13
Allah Bank	9	10	6	1	5	9	8	48	6.86	14

In Group II banks, ICICI Bank leads with the average of 2.14, followed by the HDFC Bank [2.71] and Axis Bank [3]. The bank at last position stands Yes Bank with the score of 5.57. Whereas in combine, the private sector bank ICICI is leading with the average of 2.14, followed by State Bank of India [2.29] and Axis Bank [2.71]. The bank stood at last is Allahabad Bank with the average of 6.86. Overall analysis shows that Group II banks have secured the better ranks with compare to public sector banks.

After overall ranking of the selected banks, researcher has prepared the Table 3.64 for frequency distribution of total score by individual banks. Table shows that in Group I banks, the banks under the score of 188 to 204 are 2, from 204 to 220 are 1, from 220 to 236 are 5 and from 236 to 252 are 2. Thus the maximum banks of Group I come under the frequency of 220 to 236. Whereas in Group II banks, no banks come under the first frequency of 188 to 204. The banks under the second frequency 204 to 220 are 2, from 220 to 236 are 5 and from 236 to 252 is only 1. So in Group II banks, the maximum number of banks comes under the frequency of 220 to 236. Again the combine effect shows that the maximum banks come under frequency of 220 to 236.

Table 3.64: Frequency Distribution of Total Score of Individual Banks

Total Score	N	Cumulative N	Percentage	Cumulative Percentage
Group I Banks				
188-204	2	2	20.00	20.00
204-220	1	3	10.00	30.00
220-236	5	8	50.00	80.00
236-252	2	10	20.00	100.00
Group II Banks				
188-204	0	0	00.00	00.00
204-220	2	2	25.00	25.00
220-236	5	7	62.50	87.50
236-252	1	8	12.50	100.00
Combine				
188-204	2	2	11.11	11.11
204-220	3	5	16.67	27.78
220-236	10	15	55.56	83.33
236-252	3	18	16.66	100.00

Table 3.65 shows the frequency distribution of CGDI by individual banks. In Group I banks, banks under the frequency of 70 to 75 is 1, from 75 to 80 is 1, from 80 to 85 are 3, from 85 to 90 are 4 and from 90 to 95 is 1. Thus maximum banks of Group I come under the frequency from 85 to 90. In Group II Banks, there are no banks under first two frequencies of 70 to 75 and 75 to 80. From 80 to 85 there are 2 banks, from 85 to 90 there are 7 banks and from 90 to 95 there is only one bank. Thus maximum banks of Group II come under the frequency of 85 to 90. If the Group I and Group II banks compared jointly, maximum banks falls under the frequency of 85 to

90, total 9 banks, then frequency from 80 to 85, total 5 banks, from 90 to 95, total 2 banks and under remaining frequencies of 70 to 75 and 75 to 80, only one bank each.

Table 3.65: Frequency Distribution of CGDI by Individual Banks

CGDI	N	Cumulative N	Percentage	Cumulative Percentage
Group I Banks				
70-75	1	1	10.00	10.00
75-80	1	2	10.00	20.00
80-85	3	5	30.00	50.00
85-90	4	9	40.00	90.00
90-95	1	10	10.00	100.00
Group II Banks				
70-75	0	0	00.00	00.00
75-80	0	0	00.00	00.00
80-85	2	2	25.00	25.00
85-90	5	7	62.50	87.50
90-95	1	8	12.50	100.00
Combine				
70-75	1	1	05.56	05.56
75-80	1	2	05.56	11.11
80-85	5	7	27.78	38.89
85-90	9	16	50.00	88.89
90-95	2	18	11.11	100.00

3.8 Testing of Hypothesis:

After analyzing the data and applying the multiple correlation and regression method, researcher has applied some other nonparametric tests for testing of hypothesis, like Levene's Test for equality of variance [f test], t test for equality of means, Kolmogorov – Smirnov z and Wilkoxon Rank Sum W test of equality of means.

Hypothesis 1:

H_0: Banks do not differ significantly in average financial disclosure index.

H_1: Banks differs significantly in average financial disclosure index.

The result of testing of hypothesis one is given in the Table 3.66 and Table 3.67 after applying the Levene's Test for equality of variance [f test], t test for equality of means and Wilkoxon Rank Sum W test of equality of means.

Table 3.66: Tests for equality of variances and equality of means

Average Financial Disclosure Score	Levene's Test for Equality of Variances	t-test for Equality of Means		
	F	t	df	Sig.
Equal variances assumed	16.012	-1.698	16	0.00
Equal variances not assumed		-1.884	10	0.00

The results of both the tests above shows that the null hypothesis is failed to reject because the calculated value is less than tabulate value in case of f test and calculated value is less than the tabulate value in case of t test. Thus under the assumption of equal variance, the null hypothesis failed to reject.

Table 3.67: Wilkoxon Rank Sum W test of equality of means

Components of Hypothesis	n_1	n_2	N_1	N_2	W	$\alpha = 0.025$	$\alpha = 0.050$
Financial Disclosure Index	10	8	107	60	60	54,98	57,95

Further researcher has carried out the Wiloxon Rank Sum W test of equality of means. The test result shows the calculated value of W = 60, which falls between the tabulate values at 0.025 and 0.050 level of significance. Thus again the null hypothesis failed to reject. So it is proved that selected banks do not differ significantly in average financial disclosure index.

Hypothesis 2:

H_0: Banks do not differ significantly in average non financial disclosure index.

H_1: Banks differs significantly in average non financial disclosure index.

The result of testing of hypothesis two is given in the Table 3.68 and Table 3.69 after applying the Levene's Test for equality of variance [f test], t test for equality of means and Wilkoxon Rank Sum W test of equality of means.

Table 3.68: Tests for Equality of Variances and Equality of Means

Average Non Financial Disclosure Score	Levene's Test for Equality of Variances	t-test for Equality of Means		
	F	T	df	Sig.
Equal variances assumed	1.762	-0.794	16	0.00
Equal variances not assumed		-0.820	16	0.00

The results of both the tests above shows that the null hypothesis is failed to reject because the calculated value is less than tabulate value in case of f test and calculated value is less than the tabulate value in case of t test. Thus under the assumption of equal variance, the null hypothesis failed to reject.

Table 3.69: Wilkoxon Rank Sum W test of equality of means

Components of Hypothesis	n_1	n_2	N_1	N_2	W	$\alpha = 0.025$	$\alpha = 0.050$
Non Financial Disclosure Index	10	8	103	68	68	54,98	57,95

Further researcher has carried out the Wiloxon Rank Sum W test of equality of means. The test result shows the calculated value of W = 68, which falls between the tabulate values at 0.025 and 0.050 level of significance. Thus again the null hypothesis failed to reject. So it is proved that selected banks do not differ significantly in average non financial disclosure index.

Hypothesis 3:

$H_{0:}$ There is no significant difference in the average financial disclosure index and non financial disclosure index among Group I Banks.

H_1: Significant difference exists in the average financial disclosure index and non financial disclosure index among Group I Banks.

Table 3.70: ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	737.019	1	737.019	11.195	0.003598	4.413873
Within Groups	1185.064	18	65.837			
Total	1922.084	19				

Result of testing of hypothesis three is given in the table 3.70 after applying ANOVA test. The table shows that the calculated value of F is 11.195 which is more than the table value of 4.413873 at 5% level with df being V_1=1 and V_2=18 and has could have arisen due to chance. This analysis supports the alternative hypothesis and rejects the null hypothesis. So it is clear that there is significant difference exists in the average financial disclosure index and non financial disclosure index among Group I Banks.

Hypothesis 4:

$H_{0:}$ There is no significant difference in the average financial disclosure index and non financial disclosure index among Group II Banks.

H_1: Significant difference exists in the average financial disclosure index and non financial disclosure index among Group II Banks.

Table 3.71: ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1094.948	1	1094.948	94.428	1.33081	4.600110
Within Groups	162.339	14	11.596			
Total	1257.287	15				

Result of testing of hypothesis four is given in the table 3.71 after applying ANOVA test. The table shows that the calculated value of F is 94.428 which is more than the table value of 4.600110 at 5% level with df being V_1=1 and V_2=14 and has could have arisen due to chance. This analysis supports the alternative hypothesis and rejects the null hypothesis. So it is clear that there is significant difference exists in the average financial disclosure index and non financial disclosure index among Group II Banks.

Hypothesis 5:

H_0: There is no significant difference between Group I and Group II banks average CGDI.

H_1: Significant difference exists between Group I and Group II average CGDI.

Table 3.72: Tests for Equality of Variances and Equality of Means

Average CGDI	Levene's Test for Equality of Variances	t-test for Equality of Means		
	F	t	df	Sig.
Equal variances assumed	6.196	-1.683	16	0.00
Equal variances not assumed		-1.832	12	0.00

The results of both the tests above shows that the null hypothesis is failed to reject because the calculated value is less than tabulate value in case of f test and calculated value is less than the tabulate value in case of t test. Thus there is no significant difference between Group I and Group II banks average CGDI.

Table 3.73: Wilkoxon Rank Sum W Test of Equality of Means

Components of Hypothesis	n_1	n_2	N_1	N_2	W	$\alpha = 0.025$	$\alpha = 0.050$
CGDI	10	8	109.5	61.5	61.5	54,98	57,95

Further researcher has carried out the Wiloxon Rank Sum W test of equality of means. The test result shows the calculated value of W = 61.5, which falls between the tabulate values at 0.025 and 0.050 level of significance. Thus again the null hypothesis failed to reject. So it is proved that there is no significant difference between Group I and Group II banks average CGDI.

On the basis of tested hypothesis, the summary of all tested hypothesis presented as under:

Table 3.74: Summary of Tested Hypothesis

Hypothesis	Test(s) Applied	Result
H_0: Banks do not differ significantly in average financial disclosure index. ***H_1***: Banks differs significantly in average financial disclosure index.	➢ Levene's Test for Equality of Variances ➢ t test for equality of means ➢ Wilkoxon Rank Sum W Test of equality of means	H_0 (Null hypothesis) failed to Reject
H_0: Banks do not differ significantly in average non financial disclosure index. ***H_1:*** Banks differs significantly in average non financial disclosure index.	➢ Levene's Test for Equality of Variances ➢ t test for equality of means ➢ Wilkoxon Rank Sum W Test of equality of means	H_0 (Null hypothesis) failed to Reject
H_0: There is no significant difference in the average financial disclosure index and non financial disclosure index among Group I Banks. ***H_1:*** Significant difference exists in the average financial disclosure index and non financial disclosure index among Group I Banks.	➢ ANOVA	Supports the H_1 (alternative hypothesis), so H_0 (Null hypothesis) rejected

H_0: There is no significant difference in the average financial disclosure index and non financial disclosure index among Group II Banks. ***H_1:*** Significant difference exists in the average financial disclosure index and non financial disclosure index among Group II Banks.	➢ ANOVA	Supports the H_1 (alternative hypothesis), so H_0 (Null hypothesis) rejected
H_0: There is no significant difference between Group I and Group II banks average CGDI. ***H_1:*** Significant difference exists between Group I and Group II average CGDI.	➢ Levene's Test for Equality of Variances ➢ t test for equality of means ➢ Wilkoxon Rank Sum W Test of equality of means	H_0 (Null hypothesis) failed to Reject

Table 3.74 shows the summary of all tested hypothesis. As per the result, out of five hypotheses, null hypothesis failed to reject in three hypotheses and in remaining two, alternative hypothesis is accepted and the null hypothesis is rejected.

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END NOTES:

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LXXIX http://www.bankofbaroda.com/heritage.asp

LXXX http://www.bankofindia.com/history.aspx

LXXXI http://www.canarabank.com/English/scripts/aboutus.aspx

LXXXII http://www.idbi.com/aboutus_history.asp

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XCII http://www.indusind.com/indusind/wcms/en/home/top-links/about-us/our-profile/index.html

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XCVI Karim, A.K.M.W. 1996. The Association between Corporate Attributes and the extent of Disclosure in Bangladesh. Dhaka University Journal of Business Studies 17(2): 89-124.

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Chapter 4

Summary, Findings and Suggestions

CHAPTER 4

SUMMARY, FINDINGS AND SUGGESTIONS

4.1 Introduction:

Alike most of the countries in world, banking sector is playing a significant role in India to transform the economy towards self sufficiency. Being the largest source of finance and promising industry for employment, banks assets contribution to GDP and market capitalisation is also high e.g. 5.1% of GDP and Rs. 613599.24 crores [as on 16/04/2012] significantly. India's banking sector is growing rapidly and is expected to enjoy even greater opportunities in the future. Several Indian banks are pursuing global strategies, as Indian companies globalise and people of Indian origin increase their investment in India. At the same time large number of global banks has stepped up their focus on India, keen to participate in the sector's growth. Thus Indian banking sector is rapidly globalising, making it important for Indian banks to ensure their practices match those of the best banks in the world. Therefore the governance of the banking sector is significantly important compared to other industries.

It is believed that the banking sector is relatively better regulated and governed than any industry in India but special attention needs to be taken from both the policy makers and banks itself to improve their governance practices, particularly if we revisit the lessons from the recent global financial crisis. Several legal and regulatory reforms have been initiated to improve the governance of the banking sector but the type and the pace of reforms and their effective implementation are not sufficient especially in comparison to the international development.

In a good number of areas, banks in India are lacking international benchmark; for example, Awareness on the CG issues among the stakeholders specially the board members on business case of good CG, availability of bank level CG documents (i.e. CG code, code of ethics), Composition of the bank board with appropriate mix education, skills, competencies, and gender, Availability of different board level committees e.g. risk management committee, Interest to organize training programme on CG, Board performance evaluation, Clear segregation of responsibilities between internal audit and external audit, Inadequate disclosure on non-financial information, Disclosure of RTAs & conflict of Interest, Shareholders awareness and protection, and effective monitoring of bank client's CG practices etc. In addition, role played by different bodies other than the banks' board, senior management, and shareholders also remain challenges for ensuring an effective CG framework in India.

Perception of the directors towards training on CG issues, prevailing unhealthy competition among the banks in declaring dividends, little pressure for market for control and an monitory and regulatory norms issued by the RBI, despite of having a large number of banks also limits the practices of good CG in India.

Therefore, the challenges remain with both development of new policy framework on CG and proper implementation of the existing laws, regulations and guidelines. These can be done only through an all inclusive approach and participation of all relevant stakeholders to ensure good CG framework in India.

4.2 Summary and Findings:

Chapter 1: Overview of Corporate Governance and Conceptual Framework

Corporate governance is a wide subject and like any other field, definition and effective practices of good corporate governance is largely affected by the size of the economy, differences in the legal, regulatory, institutional, financial and political framework, status of the capital market and stakeholders' perceptions etc. however, irrespective of the differences, the importance and the inherent meaning remains the same across the world. Organisations for Economic Cooperation and Development [OECD's] definition and principles on corporate governance has been accepted by most of the countries in the world including the multilateral organisations like the World Bank Group, the United Natios, the Basel Committee for Banking Supervision, the International Organisation of Securities and Commission [IOSCO], the Asian Development Bank , Islamic Financial Services etc.

Like many other international researches, this study is also focused on OECD's definition of CG "Corporate governance is defined as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance", (OECD 2004).

A balanced board with proper educations, skills and competency, experiences, independent judgement and effective oversight Strong commitment from the board and the senior management, effective control environment and process, high level of transparency and disclosure of financial and non-financial information, well defined shareholders rights including the mechanism for the protection of shareholders rights, effective monitoring of the client's corporate governance practices and long term commitment to good corporate governance practice rather than a single action or "box-ticking" exercises are some of the essential criteria against which we can judge the level of commitment to ensure good corporate governance in any of the company in the world.

Various research findings recommended that companies with good governance practices perform better in commercial terms across the world. Adopting corporate governances best practices improve access to external financing, lower the cost of capital, improve operational performance, increase firm valuation, improve share performance, and reduce the risk of corporate crises and scandals1. Good corporate governance will ensure the interest of every stakeholders including the investors by offering premium price, companies with higher access to finance and reduction of risks resulting improved profitability, the public sector through the development of stronger capital market, increased investment, and high economic growth, and a business relationship among the stakeholders which is based on the pillars of good corporate governance i.e. transparency, accountability, fairness and responsibility.

Banks are central to market development and socio-economic growth, regulatory and economic reforms including corporate governance practices. Like in many other parts of the world, bank also playing a critical role in the socio-economic development process in Asia. For example, banks are the dominant industry, important drivers for economic growth, most important sources of finance, and main depository for the economy's savings. Corporate governance principles and practices are most significant in the banking industries compared to the other industries and arguably one of the most important discussions in this current financial crisis. Banks accept money largely in the form of deposits from the general public (i.e. depositors). Banks lend money that is in effect "borrowed: from these depositors, and the failure of banks could result in a monetary loss for the depositors with significant consequences for the economy.

Chapter 2: Research Methodology

The subject of the present study is “Empirical Study of Corporate Governance in Indian Banking Sector”, which covers the period of five years from 2006-07 to 2010-11. Researcher has selected total eighteen banks listed in Bankex on January 2010 for the purpose of the research. These selected banks include the ten banks of public sector and eight banks of private sector. For the purpose of analysis, researcher has divided all banks in two groups. Group I contains ten public sector banks and Group II contains eight private sector banks.

After a detailed survey of existing literature, the main objective of the current study is decided to determine the corporate governance practices in the Indian banking sector. The study aims to identify the practices in different CG issues with reference to corporate governance disclosure index based on the report entitled “Guidance on Good Practices in Corporate Governance Disclosure” issued by the UN Secretariat for the nineteenth session of ISAR (International Standards of Accounting and Reporting).

For analysis purpose, researcher has developed the CGDI and on the basis of that, financial and non financial disclosures are calculated for the banks of each group. After analysis of data, researcher has tried to find out the effect and relation of different variables on CGDI with the help of multiple regression and correlation analysis. Further researcher has developed the five hypothesis, which are being tested by applying different statistical tests like Run Test, Levene’s Test for Equality of Variances, t test for equality of means, Wilkoxon Rank Sum W test for equality of means and ANOVA. Finally researcher has also shows the limitations of the study and scope for the future research.

Chapter 3: Analysis and Interpretation of Corporate Governance Disclosure Index

Starting with brief introduction of each selected banks and its ownership pattern and performance charts, researcher has collected important financial and non financial data of sample banks. As shows in second chapter of research methodology, the study is based on analysis of corporate governance on the basis of corporate governance disclosure index. For that purpose, corporate governance disclosures of all banks are divided in two categories – financial disclosures and non financial disclosures. In financial disclosures, researcher has included total fourteen items, each scored 1 for five years, so total obtainable score becomes 70. And for non financial disclosures, researcher has included total thirty nine items each scored 1 for five years, so total obtainable score of non financial disclosures become 195. Thus total score of CGDI is 265. On the basis of this score, total score obtained by each bank is compared and this way CGDI is obtained.

Researcher has also done other analysis of data of selected banks for the purpose of regression analysis and correlation analysis. In this analysis, researcher has tried to find out the relation among the CGDI and other various independent variables like size of the bank, local ownership, presence of bank at global level, number of board members, ratio of independent directors in board and financial performance of the bank.

Further researcher has analysed the data in different way like overall ranking of selected banks on the basis of variances considered for regression analysis, financial and non financial disclosure items and their rankings, frequency distribution of CGDI score and rate of each selected banks etc. finally researcher has tested the hypotheses for that purpose, different statistical tests are utilised which are Run Test, Levene’s Test for Equality of Variances, t test for equality of means, Wilkoxon Rank Sum W test for equality of means and ANOVA.

Research Findings

Commitment to Good CG Practices

- Analysis of CGDI of all the selected 18 banks emphasized the importance of ensuring corporate governance among other priorities, such as operational, asset or human resource management of the banks; however, the understanding of CG is in many cases not in line with international best practices.
- The results on the familiarity of international guidelines on CG among the sample banks for financial disclosures and non financial disclosures are shows the compliance with international guidelines on CG. As per that result, the compliance with financial disclosure was good with 95.63% and for non financial disclosures; it was only 81.54% that is relatively low.

- Further if we analyse the disclosure results group wise, for Group I banks [Public Sector Banks] financial disclosure score was 92.86% and non financial disclosure score was 80.72%. For Group II banks [Private Sector Banks], score of financial disclosures was 99.11% and score for non financial disclosures was 82.56%. Thus in both the cases, score of Public sector banks was less.
- Financial disclosures as per international standards missing in most of the banks were details of subsidiaries [27.78%], details regarding risk management [11.11%] and other financial performance i.e. ratios, charts, graphs etc. [5.56%]. Thus the maximum financial disclosure item missing was the detail about the subsidiaries. Following table 4.1 shows the missing percentage of each item.

Table 4.1: Financial Disclosure Missing in selected Banks

Sr. No.	Disclosure Item	Number of Banks	Percentage
I - Financial Disclosures			
1	Directors' Report	00	00
2	Auditors Report	00	00
3	Financial Statements	00	00
4	Schedules forming part of Financial Statements	00	00
5	Details of subsidiaries	05	27.78
6	Consolidated Financial Statements	00	00
7	Notes on account	00	00
8	Significant Accounting Policies	00	00
9	Related Party Disclosures	00	00
10	Segment Reporting	00	00
11	Risk Management	02	11.11
12	BASEL - II Disclosures	00	00
13	Dividend Details	00	00
14	Other Financial Performance [Ratios/Charts/Graphs]	01	05.56%

- In non financial disclosures as per the international standards missing in most of the banks was many. If we start with company objectives, not a single selected bank was complying fully. Banks missing message from the chairman were 12.22%, letter from MD and CEO were 6.67% and banks without vision and mission statement were maximum 77.78%.

Table 4.2: Non Financial Disclosure Missing in selected Banks

Sr. No.	Disclosure Item	Number of Banks	Percentage
	II - Non Financial Disclosure		
	Company Objectives		
1	Message from the Chairman	02.20	12.22
2	Letter from MD & CEO	01.20	06.67
3	Vision & Mission Statement	14.00	77.78
	Ownership & Shareholders' Rights		
4	Ownership/ Shareholding Structure/ Pattern	00	00
5	Shareholders' Rights	07.40	41.10
	Governance Structure & Policies		
6	Statutory Details of the company	00	00
7	Size of the Board [Minimum 10 members]	00	00
8	Composition of Board	00	00
9	Chairman & CEO Duality	14.00	77.78
10	Information about independent Directors	00	00
11	Role & Functions of the Board	00	00
12	Changes in the Board Structure	00	00
13	Audit Committee	00	00
14	Remuneration & Nomination Committee	00	00
15	Investors' Grievance Redressal Committee	00	00
16	Other Committees	00	00
17	Composition of the Committees	00	00
18	Functioning of the Committees	00	00
19	Organizational Code of Ethics	14.00	77.78

Member of the Board & Key Executives			
20	Biography of the Board Members	00	00
21	Number of Directorship hold by each Member	00	00
22	Number of Board Meetings [At least 3 in a year]	00	00
23	Attendance in Board Meetings [Minimum 80%]	00	00
24	Director's Stock Ownership	06.20	34.44
25	Director Remuneration	00	00
Material Issues Regarding Employees, Environmental & Social Stewardship			
26	Employee Relation/ Industrial Relation	05.40	30.00
27	Corporate Social Responsibility	00.40	02.22
28	Environmental Responsibility	07	38.89
29	Financial Inclusion Norms/ Policy	01	05.56
Material Foreseeable Risk Factors			
30	Internal Control System	06.20	34.44
Independence of Auditors			
31	Auditor Appointment & Rotation	17.00	94.44
32	Auditor Fees	00	00
Annual General Meeting			
33	Notice & Agenda of the AGM	00	00
Timings & Means of Disclosure			
34	Separate CG Statement/ Section	00	00
35	Annual Report through Internet	02.80	15.56
36	Green Initiative Practices [for 2010-11 only]	08	44.44
Best Practices for Compliance with CG			
37	Compliance Certificate for CG [Clause 49]	00	00
38	Philosophy on Code of CG	00	00
39	Best Practices Recognition/ Award for CG	17.80	98.89

- Non financial disclosures related to ownership and shareholders' rights were partly complied by the banks. Out of two items, shareholding pattern/ownership structure was fully complied by all the banks. But the second shareholders' rights were not complied by 41.10% banks.

- Further in Governance structure and policies, out of fourteen items, only two were partially incomplete by the banks. The items that fully completed were statutory details of the company, size of the board, composition of the board, information about independent directors, role and functions of the board, changes in the board structure, audit committee, remuneration and nomination committee, investors' grievance redressal committee, other committees, composition of the committees and functioning of the committees. The missing information in only two items which were Chairman and CEO duality [77.78%] and organizational code of ethics [77.78%].
- Non financial disclosures related to member of the board and key executives included total six disclosures. Out of six, only one was not complied the sample banks. The items which were fully complied include biography of the board members, number of directorship held by each member, number of board meetings, attendance in board meetings and director remuneration. The only missing information in this category was directors' stock ownership which was not disclosed by 34.44% banks.
- The next category of non financial disclosures includes material issued regarding employees, environmental and social stewardship. Four out of four items under this category were not complied fully. That includes employee/industrial relation [30%], corporate social responsibility [2.22%], environmental responsibility [38.89%] and financial inclusion norms/policy [5.56%]. Thus the item which was missed by most of the banks was environmental responsibility.
- In next category of material foreseeable risk factors, there was only one item said internal control system, and 34.44% banks out of total banks, were missing in this disclosure.
- Category related to independence of directors included two items namely auditors' appointment and rotation and auditor fees. The later was fully complied whereas the first was complied by only 94.44% banks.
- The category of annual general meeting was fully complied which included only one item there was notice and agenda of annual general meeting of the company. The notice of annual general meeting included the place of the annual general meeting along with the date, day and timings.

- The next disclosure was timings and means of disclosures which had total three items out of that separate corporate governance statement/section was disclosed by all the selected banks. But remaining two was not complied fully, which were annual report through internet [15.56%] and green initiative practices [44.44%]. Thus majority of the banks were missing recently introduced environment friendly concept of green initiative.
- The last category of non financial disclosures was best practices for compliance with corporate governance which had three items. All the banks had shown the compliance certificate for corporate governance as per Clause 49 of the Listing Agreement which is mandatory for all listed companies in India and philosophy on code of corporate governance. But only one bank had got the award for good corporate governance and again only for one year. So all remaining banks [98.89%] were failed to get any such award or recognition for corporate governance.

Board Practices:

- The function of the board of banks in India is in line with international best practices i.e. responsible in setting banks strategy, selecting, dismissing and setting remuneration for CEOs/MDs, approving annual budgets, and approving disclosure policies, among others. Areas where improvement is necessary is the function of the board in overseeing risk management, internal controls, and approving succession planning for both the directors and senior management.
- Among the 18 surveyed banks, the study revealed that 15 bank boards consist of 10 to 15 members and only 3 banks has a board comprising of 8 to 10 members. The study also revealed that large bank boards are relatively small compared to medium and small banks.
- While female representation is seen in the boards, the number of independent directors in the boards as female director was low and overall banks having inclusion of female in board were also very few.
- The study revealed that the position of the chairman of the board and the CEO/MD is filled by the same individuals in most of the 18 banks in India.
- The frequency of board meeting among the surveyed banks are more than 16 times (8 banks), 13 to 15 times (4 banks), 10 to 12 times (4 banks), and 6 to 9

times (2 banks). It was also revealed in the study that the frequency of board meeting is higher in large banks compared to medium and small banks in India.

- It is observed by the researcher that in all the surveyed banks had a company secretary who assists the board and its chairman to properly prepare and conduct board meetings. It was also revealed that in major cases the secretary was an employee of the banks.
- It is observed by the researcher that all the surveyed banks did not provide any training on CG for its board members or did not arrange any orientation programme for its new board members for Control Environment and Process.
- The study revealed that all the surveyed banks in India had an external auditor, audit department and compliance department to ensure an effective control environment and processes. The majority of the banks (65.56%) had an internal control department and a risk management function or risk manager positions respectively.

Transparency and Disclosure

- Shareholders' primary sources of information on financial, operational and governance issues regarding banks are the local media, Annual General Meetings (AGM) and official websites.
- A majority of the surveyed banks disclose their financial information on their websites. For example, on average more than 84.44% of the surveyed banks disclose their annual reports, balance sheet, profit and loss account, cash flow statement, and notes to the financial statements on their websites. Only, 15.56% of the banks did not disclose any of the above mentioned information fully or partially into its websites. The survey also revealed that the level of disclosure on non-financial information on bank websites is relatively low compared to financial information.
- The majority of the banks' annual reports cover financial information and statements about the banks, reports of the chairman to the board, external auditor's opinions, and ownership structure and dividend policies. A low majority of the surveyed banks also include CG policies and procedures, future plans, dividend history, environment, social and economic sustainability, market share, sales and marketing data in its annual report.

4.3 Suggestions:

The following suggestions and recommendations targeting major stakeholders i.e. Individual Banks, Governments and Regulatory Bodies, Banking Associations, Institutional Investors, Shareholders, Audit Professionals, Stock Exchanges, Credit Rating Agencies and Media will facilitate in identifying the areas where improvement is necessary and accordingly, the stakeholders can initiate CG reforms in the banking sector of India.

4.3.1 Individual Banks

- Financial disclosure score of public sector banks and private sector banks shows that the overall score is good, but some banks did not disclosed certain information. Out of ten banks, Canara Bank had the highest missing information regarding the details of subsidiaries, significant accounting policies, related party disclosures and segment reporting, so Canara Bank should focus to shows these details in the annual reports in proper way. Allahabad Bank has also missed the details of subsidiaries, risk management and other financial performances. Bank of Baroda, Bank of India and Punjab National Bank should focus on providing the details of subsidiaries. The same scenario was there in the private bank – Yes Bank. The Yes Bank failed to provide information regarding the risk management, so to overcome this limitation, the bank should focus to comply with the missing information on emergency basis.
- Whereas in non financial disclosures, not a single bank scored 100%. If analysed in detail, there were many points missing in each banks. Points which should be focused by public sector banks are company objectives related details, details regarding ownership and shareholders' rights, governance structure and policies, material issued regarding employees, environment and social stewardship, material foreseeable risk factors, independence of auditors, annual general meetings, timings and means of disclosures and best practices for compliance with corporate governance. Non financial disclosures are more neglected with compare to financial disclosures. That may be harmful policy especially for stakeholders who want to obtain such information. So banks should focus on these missing points earliest.

4.3.2 Corporate Governance Function Wise:

Improving Commitment to Good CG Practices:

- Should initiate massive awareness campaign (e.g. seminar, workshops etc.) highlighting the meaning and the business case of good corporate governance.
- Delegate or appoint someone with formal responsibility to ensure good corporate governance practices within the banks.
- A bank should develop its own code of corporate governance to ensure that it is in line with international best practices.
- Code of ethics and board charters serve as very important documents for ensuring good corporate governance, and banks in India can think of developing such documents in the long run.

Ensuring Good Board Practices:

- Although the functions of the board are, in most cases, in the line with best practices, certain areas need to be given special attention. For example, boards play a minor role in overseeing the risk management and internal audit function of the banks. Board members also should have proper information about how the banks manage risk and conduct the internal audit.
- Boards should consider overseeing the risk management and internal audit functions of the banks to ensure the best interest of the stakeholders.
- Board should develop succession plans to ensure the smooth operations of the banks.
- Banks in India should constitute their board with an appropriate mix of skills and experience and should not be bias in regard of age and gender of the board members.
- Awareness on the benefits of having an independent director on the board is of utmost importance and bank should recognise that appointment of independent director will certainly add value as they can protect the interest of its stakeholders.
- Bank should encourage audit committee members to understand the role of the committees and should provide proper incentives. In addition, an independent

director should be appointed to lead the committees who can provide his or her independent judgement for the best interest of the bank's shareholders.

- Although, the frequency of board meetings in banks are in line with best practices, there are certain areas that need to be improved for an effective board meeting e.g. the timing and type of documents shared with board members before board meetings. Banks should also inform board members well in advance and circulate the agenda and the issues to be discussed at the meeting so that the members can prepare themselves to actively take part in the discussions. The role of the corporate secretary is of utmost importance and needs to be further enhanced.
- Boards should place more emphasis on developing strategy and policy frameworks for the banks, and monitor the compliance of those policies and empower the day-to-day management decisions to the management.
- Banks should initiate performance evaluation of the board to ensure that the board achieves its purposes and is best able to protect the interest of stakeholders.
- Banks should consider organising seminars, workshops sessions on CG for its board members and also should arrange orientation sessions for new members.

Strong Control Environment and Processes:

- Although a large number of banks have risk management committees at management levels, board should establish its own risk management committee, develop risk management policy in consultation with management to oversee and guide the management for managing risks efficiently. The board should also give enough time to ensure proper alignment of banks strategy with risk-appetite and internal risk management structure. The risk management policy should also be publicly disclosed to ensure accountability and transparency.
- Relations between risk management functions, internal control and audit functions of the banks should also be streamlined since some banks have multiple relationships which are sometimes not in line with best practices.
- Banks are obliged to change audit firms in regular intervals and should consider the quality of the audit services while they are changing the audit

firms and should think of partnering with a firm with international audit experience. External auditors should not be given any opportunity to perform services other than audit.

Strengthening Transparency and Disclosures:

- Banks should disclose both their financial and relevant non financial information on their websites to enable stakeholders, e.g. supervisors, shareholders, media, researcher, to have access to information.
- In addition to covering the financial information of the company, the annual report should also include relevant non financial information for example, dividend policy, remuneration policy, policy on corporate social responsibility and corporate social responsibility practices, risk management framework and policy, ownership structure, board charter and shareholders rights protection others.
- Bank's disclosure policy should be shared and approved by the shareholders in annual general meeting.
- Banks should accelerate the pace of implementing international accounting standards i.e. IFRS.

Protecting Shareholders Rights:

- Shareholders have the rights to elect and dismiss directors of the banks but the nomination process is not very transparent. Before seeking approval from the shareholders, director's skills, qualifications, and experience should be shared with the shareholders to ensure that they know the people who are running their banks.
- Banks should develop a Shareholder Handbook highlighting the rights and responsibilities of the shareholders and share the book with each and every shareholder.
- Banks should inform the shareholders through proper channels (e.g. both electronic and print media), giving enough time so that shareholders can attend the annual general meeting. In addition to confirming the attendance of the shareholders, they should also be given an opportunity to ask relevant questions at the annual general meeting. Types of documents shared with

shareholders before the annual general meeting should also include their policies on dividend, remuneration, and risk management framework of banks among others. Shareholders should also be allowed to vote electronically and in advance if they are unable to attend the annual general meeting in addition to existing voting practices by showing-of-hands or by proxy.

- Banks can establish a shareholder desk at its own premises to receive feedback, suggestions or even grievances.
- Banks should develop a dividend policy and a Related Party Transaction (RTPs) policy and, should share them with shareholders for approval. There should be provisions that related party transactions should be disclosed before they take place. Banks Governing document also should require that board members and management should disclose and abstain from voting when there is conflict of Interest.
- To promote shareholder activism, an autonomous institute can be established. In this regard, experience and lessons from the Minority Shareholder Watchdog Group (MSWG) in Malaysia can serve as the feasible case study.

Improving clients' Corporate Governance Practices:

- Banks should include client's corporate governance assessment as key criteria when assessing proper weight for credit worthiness.
- Banks should periodically review the corporate governance practices of its clients and should provide feedback to improvements in corporate governance practices.
- Banks should arrange incentive programmes for the clients who have showed significant improvements in corporate governance practices.

4.3.3 Government and Regulators [e.g. SEBI, RBI and relevant ministries]

- Regulators should provide guidelines to individual banks to establish different committees to ensure transparency. SEBI should also develop a policy on fees paid to the banks directors for attending board meetings instead of just limiting a certain amount.
- Should conduct regular revision of corporate governance guidelines if required, incorporating internationally acknowledged principles & guidelines.

- Rules regarding the size of the board and eligibility of directors should be revised and streamlined among key regulators.
- Regulators should revise various regulations and acts i.e. Listing Agreement Clause 49, The Company Act 1956 and accelerate the process of establishing a Financial Reporting Council.
- Regulators should organise a global conference on corporate governance in India with presence from global leaders on corporate governance to share international best practices and developments around the world.
- The RBI should also collaborate with other central banks in the region to explore a certification programme for directors through which bank directors of one country are eligible sit on the boards of banks in other countries. This will motivate the directors towards corporate governance education.
- RBI should initiate regular discussions with the banks on the business case of good corporate governance practices. They should also offer technical assistance.
- SEBI or RBI can send representatives to oversee the AGM of banks.
- The expertise of international credit rating agencies can strengthen the rating culture of India. Therefore, the rating of all banks should be mandatory that will add value to international investors' community, resulting in greater access to capital.
- Full autonomy to the important regulators, especially the RBI and the SEBI, should be given to set the tone at the policy level.

4.3.4 Shareholders:

- Dedicate enough time to learn the international corporate governance best practices and consider corporate governance for investment decisions.
- Establish a platform where they can raise their voice in a coordinated way and should continue to pressurize the banks to disclose financial, operational and governance information
- Institutional investors should act as a pressure group and should consider good corporate governance practices as investment decisions

4.3.5 Stock Exchange (i.e. NSE, BSE)

- Form partnership with other regional and international stock exchanges to learn and share best corporate governance practices.
- With recent growth in capital markets, stock exchanges should expand their operations and accelerate their investor's awareness programmes on a wide scale
- BSE has recently introduced the Greenex to give initiative to green practices/ environment friendly practices among listed companies. Same way it should think for a special index for the companies with best corporate governance practices.

4.3.6 Chartered Accountants Bodies (e.g. ICAI & ICWAI)

- Provide international training on the role of the auditor, ethics in auditing and due diligence, etc to ensure proper disclosure of both financial and non-financial information of Banks.
- Encourage Indian audit firms to form partnerships with international audit firms to ensure best practices.

4.3.7 Credit Rating Agencies

- Should consider going beyond quantitative numbers while rating the banks and incorporate the qualitative information on corporate governance as much as possible.

4.3.8 Banking Associations

- Should arrange regular dialogue with key stakeholders to share developments and challenges for ensuring corporate governance practices within the banking sector.
- Should also engage in conducting comprehensive research and partnerships with other training institutes to provide training on corporate governance issues for both the members of the Board and senior management officials.

4.3.9 Researchers & Academics

- Should continue to identify and explore the areas of improvements and provide priority based suggestions to improve corporate governance practices.

4.3.10 Media

- Should investigate financial, operational and governance practices and should report and publish the information to a wider group of stakeholders.

4.3.11 International Organizations promoting Corporate Governance

- Should provide technical assistance as well as share best practices with a cross range of stakeholders to promote CG practices.
- Form partnerships with local institutes to provide training on various aspects of good corporate governance to board members, senior management and media people.

4.4 Conclusions:

This research undertakes the content analysis studies. It has been found that a good number of Indian banks listed in Bankex have chosen to disclose information regarding various issues of corporate governance with a view to ensure compliance with regulatory requirements and to increase the confidence of various constitutes of business as well as society. But only disclosers in the annual reports shall not be enough. Practice of good corporate governance and its appropriate disclosure can facilitate and stimulate the performance of banks, limit the insiders' abuse of power over corporate resources and provide a means to monitor managers' opportunistic behaviour.

This research findings show that corporate governance disclosures in Indian banks is significantly influenced by the size of the bank, independent directors and financial performance but belonging to local ownership, international presence and size of the board do not have significant impact on corporate governance disclosure. So steps should be taken for mandatory compliance of best corporate governance practices as per the Indian context as well as international context. Within the current type of analysis, scope may widened by covering the corporate governance disclosure practices by all Indian banks or all banks presents in India including the foreign banks as well as the non banking financial companies also over a number of years to find out the extent of importance the organisations are emphasizing on this issue. Moreover, in this research, all the disclosure items are given same weight. Although, this helps to reduce subjectivity, the market may place higher emphasis on certain elements of governance. Also, some aspect of governance may be considered to be a basic component or prerequisite to implementing others and thus should be given more weight. Further analysis may also include managerial perceptions studies and stakeholders' perceptions studies.

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