

Corporate Governance: A Case Study of Disclosure Practices in Indian Private Sector Banks

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Banks and other financial institutions are the main source of external finance for any economy. Banks play a vital role in the economy and the continued strength and stability of the banking system is a matter of general public interest and concern, both in regard to its linkages with the real sector and for providing a payment and settlement system. Privately-owned (Private Sector) banks have played a major role in economic development. This current research tries to study the trend of disclosure of corporate governance practices followed by Indian New Private Sector banks for the financial year 2010-11. Observations reveal that serious efforts are required to take disclosure practices one level above.

Key Words: Corporate Governance, Indian Banking Sector, Financial Disclosure

Introduction

Corporate governance is all about advocating those standards and practices which promotes and strengthens the position of stakeholders in the company. It defines relationship and commitment between company and investors alongwith other stakeholders. Corporate Governance defines the degree of loyalty that an organization should feel for their investors. Hence, it can be said corporate governance is a systematic approach between board, management and stakeholders.

Fundamentally, conceptual framework of corporate governance was developed in such a way that it may satisfy the need of shareholders. It provides brief outline of structure and process of corporate governance. Effective and good corporate governance practices help in promoting and developing any kind of organization irrespective of its kind and nature. But for banks and financial institutions corporate governance assumes a greater level of importance. Banks hold vital position in our economy and corporate governance has a greater role to play in their growth and development. Banks are the custodian of general people's money. Banks mobilize their savings from investors. This custody requires accountability from the bank towards their investors whose money they hold. Good and efficient banking system of any country adds value in economy and financial system of that country. This fiduciary relationship considers corporate governance practices of banks to be different from other companies.

During past few decades, our economy has been undergone drastically changes. One of them is privatization which has its own role to play. Having people's hard earned money in the

private hands, demands corporate governance part to be more strong and powerful. Factors like credit expansion, expanding profitability and productivity, reduced non-performing assets and focusing on financial inclusion makes banking industry strong and active. At the time of financial crisis these banks can play vital role. Indian banks have to rejuvenate themselves to match with the pace of time.

Banks And Corporate Governance

Banks fulfils the requirement of every sector of business whether small or medium, private or public, non-financial firms play a significant role in generating and allocating capital. This service makes them important and dominant part of the economy. Good governance in banks can be achieved through adopting good regulation practices which helps in coping with the risk exposure.

Formulae of success for any bank are effective allocation of capital and ensuring that other firms can also do that. In other words, banks should lend only for productive purposes. Banks duty must not get over just by lending but it extends to overlook that the money lended is utilizing efficiently or not. By discharging their duties efficiently, banks can protect themselves from failures.

Prioritized lending to any particular sector creates disparities in the nation. Corporate governance should not be overlapped with political and legal environment. Good legal framework and political environment promotes corporate governance practices.

Depositing in banks creates a fiduciary duty upon banks

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towards its depositors. It is required from the depositors' side to run the bank and other financial institutions in best of their interest. Fiduciary duties are all about maintaining and retaining trust and confidence among stakeholders. This fiduciary duty argues for the specialness of the banks' CG problem which carries over to other financial firms, which have a fiduciary duty to savers (household investors), especially where the state provides an investor protection fund. Further, the definition of a bank has become problematic as commercial banks have diversified into investment banking and insurance and vice versa. Another fact is that they are more heavily regulated than most other firms in most economies. Their regulation often includes direction of lending and government ownership, especially in developing and formerly centrally planned economies.

Role of Corporate Governance In Banks:

Over the last three decades, there has been a remarkable increase in the size, spread and scope of activities of banks in India. The business profile of banks has transformed dramatically to include non-traditional activities like merchant banking, mutual funds, new financial services and products and the human resource development. (FICCI Annual Survey report, 2010). For banks and any other financial institutions corporate governance assumes a greater level of importance. Banks are highly leveraged organizations. Banks can only secure their existence and ensure efficiency in workings as long as they can enjoy the confidence and trust of their stakeholders. In banking sector, good corporate governance is very much essential for justifying its role in money management. Depositor's protection and public policy are two important factors which consider banks as a lead to a comprehensive regulatory and supervisory framework. Qualitative standards like as internal controls and risk management composition and role of the board and disclosure standards can add value to corporate governance of banks.

It has been recognized that there is a need to attach importance to Corporate Governance is one of the most critical issues that banks have to pay attention to in all earnest.

- Good corporate governance of banks is the backbone of a sound banking system. Corporate governance in banks is of crucial value to the various stakeholders viz, the depositors, creditors, customers, shareholders, employees and society at large.
- Adequate disclosure and transparency are two key pillars of a corporate governance framework in a bank.
- Unlike companies, there is an external dimension to the issue of corporate governance in banks. It is not just shareholders interest, but that of depositors too which is involved.
- Banks are custodians of public wealth, and there must be a system of internal checks and balances to ensure that this interest is safeguards.

Research Objectives:

- To understand the concept of corporate governance in the area of banking sector.
- To know about disclosure practices of selected banks.
- To suggest recommendations for improving level of adherence to better corporate governance practices by banks.

Sampling:

As private sector banks are playing major role in globalize economy, a sample of seven new Indian private sector banks operating in India has been selected for the study. These banks are HDFC bank, ICICI bank, AXIS bank, YES bank, INDSUIND bank, KOTAK MAHINDRA bank and DCB bank.

Data Collection & Period of Study:

The work has been carried out on the basis of secondary data. Annual Reports of banks covered under the study, have been the major mere source of data. Annual reports of financial year starting from 1st April 2010 ending 31st March 2011 have been taken as this purpose.

Hypotheses Development:

Hypothesis (H1):

New Private sector banks in India disclose maximum information through their annual reports.

Hypothesis (H2):

Selected Indian private sector bank did not show good adherence in relation to corporate governance disclosure norms.

Analysis And Interpretation:

This study focuses on finding out the extent to which these private sector banks has implemented the corporate governance attributes in their organization. Special focus is on Annual Reports published by them. As annual reports are the main source of information available for research work, they are studied thoroughly. Maximum disclosure or reporting through annual reports indicates good adherence to corporate governance practices. For this purpose an empirical study has been undertaken on seven private banks operating in India. This study is divided into eight parts; each part is analyzing status of corporate governance disclosures.

TABLE: 1 Share Holding Pattern of the banks as on 31st march 2011

S.NO.	CATEGORIES	HDFC	ICICI	AXIS	YES	INDSUIN D	KOTAK MAHINDR A	DCB
	Total No. of Shares	46,52,25, 684	1,15,17,72 , 372	41,05,45, 843	34,71,47,124	46,57,73,8 35	73,68,71,504	20,01,71 , 209
A.	Promoters' holding							
1	Promoters							
a	Indian	23.35	Nil	23.68	26.57	19.54	45.57	1.22
b	Foreign	Nil	Nil	Nil	Nil	Nil	Nil	21.86
2	Persons acting in concert	Nil	Nil	Nil	Nil	Nil	Nil	Nil
3	Friends & Associates of Promoters	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Sub-Total (A)	23.35	NIL	23.68	26.57	19.54	45.57	23.08
B.	Non- Promoters' holding							
1	Institutional Investors							
a	Mutual Funds	-	7.32	-	-	-	-	-
b	Mutual Funds & UTI	-	-	-	5.08	7.79	2.32	1.75
c	Banks & Financial Institutions	-	0.08	-	0.05	-	-	0.14
d	Banks, Financial Institutions, Insurance Companies (State/ Central Govt. Institutions)	-	-	-	-	0.48	3.12	-
e	Banks, Mutual Funds & Financial Institutions	475	-	5.12	-	-	-	-
f	LIC of India	6.60	-	9.56	-	-	-	-
g	GIC & other nationalized GIC	0.27	16.64	3.97*	4.75	-	-	0.03
h	Foreign Institutional Investors(FII)	28.53	-	-	45.54	34.78	25.40	8.28
i	Foreign Financial Institution(FFI)	-	-	-	4.81	-	-	-
	Sub-Total (B)	40.15	24.04	18.65	60.23	43.05	30.84	10.20
C.	Others							
a	Private Corporate Bodies	-	4.02	-	1.41	11.15	4.74	15.20
b	Indian Public	-	5.47	-	10.44#	9.74	-	40.68 ^a
c	NRIs & OCBs	-	-	-	0.79 (only NRI)	2.42	1.22 (including Foreign Bodies)	2.95 (only NRI)
d	FII/OCB/NRI	-	-	37.89	-	-	-	-
e	OCB/ NRI/FB/FN	1.22	-	-	-	-	-	-
f	FII/NRI/FB/FC/OCB/FN	-	39.48	-	-	-	-	-
g	GDRs	0.52	-	9.19	-	13.89	-	-
h	ADS (Deutsche Bank Trust Company Americas)	16.92	26.99	-	-	-	-	-
i	Foreign Banks/ Companies	-	-	-	-	-	4.45 (only banks)	6.34
j	Indian Companies	8.72	-	-	-	-	-	-
k	Trusts	-	-	-	0.02	0.01	-	0.01
l	HUF	-	-	-	0.18	-	-	-
m	Clearing Members	-	-	-	0.36	.20	0.06	-
n	Any Others	9.13	-	10.59	-	-	-	1.52
	Sub-Total (C)	36.51	75.96	57.67	13.20	37.41	23.59	66.72
	GRAND-TOTAL (A+B+C)	100	100	100	100	100	100	100

Source: Annual Reports 2010-2011

FB- Foreign Bodies; FN- Foreign Nationals; OCB- Overseas Corporate Bodies; GDR-Global Depository Receipt; ADS- American Depository Shares

*includes four PSU Insurance Companies; # Individuals holding nominal share capital up to 1 lakh - 6.63

Individuals holding nominal share capital excess of 1 lakh - 3.81; includes directors and relatives

Individuals holding nominal share capital up to 1 lakh - 32.74; Individuals holding nominal share capital excess of 1 lakh - 7.94

Observations From Table 1:

- Promoters holding in Kotak Mahindra bank are very high which shows their dominance while on the other hand ICICI Bank has no promoters holding.
- Foreign Institutional Investors have considerably major share holding in Banks except ICICI & AXIS Bank as they have no FII.
- Insurance Companies other than LIC of India is comparatively large holders of shares in these private sector banks.

TABLE: 2
BOARD STRUCTURE, STRENGTH AND SIZE
For the year ended 31ST march

S.N O	PARTICULARS	HDFC	ICICI	AXIS	YES	INDSUIN D	KOTAK MAHINDR A	DCB
I.	Total No. of Directors	10	12	14	7	9*	11	10
a.	No. of Executive Directors							
i.	Promoters	-	-	4	1	-	1	-
ii	Others	3	3	2	-	1	2	1
b.	No. of Non-Executive Directors							
i	Promoters	-	-	-	-	-	-	-
ii	Independent	6	7	8	5	6	7	7
iii	Nominee	-	-	-	-	-	-	-
iv	Others	1	2	-	1	2	1	2
II.	Total No. and Percentage of							
a	Executive Directors	30 %	25 %	42.85%	14.28%	11.11%	27.27%	10%
b	Non-Executive Directors	70 %	75 %	57.14%	85.71%	88.88%	72.72%	90%
c	Independent Directors	60 %	58.33%	57.14%	71.42%	66.66%	63.63%	70%

* Including one alternate director

Source: Annual Reports 2010-2011

Observations From Table 2:

- All banks have an optimum combination of Executive and Non- Executive directors.
- 4 banks viz. HDFC, ICICI, Kotak Mahindra and DCB bank has Non- Executive, Independent chairman while YES bank and Indsuid bank have Non-Executive chairman. All the banks having non- executive chairman are comprised of more than one- third of independent directors in its board.
- AXIS bank has got large no. of promoters in his board which shows there dominance in board meetings. Also this bank has one of his promoters as chairman. Although, independent directors are more than half of its board as required by listing agreement.
- DCB bank has good strength of independent directors in its board which ensures greater transparency in its workings and also enhances good corporate governance practices.

TABLE: 3
DIRECTORS' ATTENDANCE IN THE BOARD MEETINGS:

No. Of board meetings	HDFC (7)	ICICI (9)	AXIS (10)	YES (4)	INDSU IND (9)	KOTAK MAHIN DRA (8)	DCB BANK (6)
1	Nil	3	1	1	Nil	1	Nil
2	3	1	Nil	1	Nil	2	Nil
3	2	1	1	1	1	Nil	Nil
4 ⁴	2	Nil	2	5	Nil	1	2
5	3	2	2	N.A.	1	Nil	5
6 ⁶	3	2	1	N.A.	Nil	1	3
7 ¹	4	1	1	N.A.	2	1	N.A.
8 ⁵	N.A.	2	2	N.A.	1	4	N.A.
9 ²	N.A.	5	Nil	N.A.	4	N.A.	N.A.
10 ³	N.A.	N.A.	5	N.A.	N.A.	N.A.	N.A.
AGM	All	2-AB	5-AB	3-AB	3-AB*	1-AB	Not Disclosed

Annual General Meeting; AB – Absent; * AGM attended by alternate director in the absence of director

- 1 - Total no. of board meetings of HDFC bank; 2 - Total no. of board meetings of ICICI & Indsuid bank.
 3 - Total no. of board meetings of AXIS bank; 4 - Total no. of board meetings of YES bank.
 5- Total no. of board meetings of Kotak Mahindra bank; 6 - Total no. of board meetings of DCB bank.

Observations From Table 3:

- All the banks fulfil the minimum criteria of at least four board meetings in a financial year.
- Attendance in all the banks is not very satisfactory.
- Attendance at AGM is also not good.
- DCB bank did not disclose about attendance at AGM in its annual port.

Table 4
Status of Audit Committee as on 31st March, 2011

S.NO	PARTICULARS	HDFC	ICICI	AXIS	YES	INDSUIND	KOTAK MAHINDRA	DCB
1.	Transparency in composition of the committee.	TM - 5 NEDs - 5 IDs - 5 Chairman - NED/ ID	TM - 4 NEDs - 4 IDs - 4 Chairman - NED/ ID	TM - 4 NEDs - 3 IDs - 3 Chairman - NED/ ID	TM - 4 NEDs - 4 IDs - 3 Chairman - NED/ ID	TM - 4 NEDs - 4 IDs - 4 Chairman- NED/ ID	TM - 3 NEDs - 2 IDs - 2 Chairman - NED/ ID	TM - 4 NEDs - 4 ID - 3 Chairman - NED/ ID
2	Compliance of minimum requirement of no. of IDs in the committee.	√	√	√	√	√		√
3	Compliance of minimum requirement of the no. of the committee meetings.	Total Meetings - 7 2 attended all 7 1 attended 6 2 attended 4 2 attended	Total Meetings - 7 2 attended all 7 2 attended 6 1 attended 1	Total Meetings- 11 1 attended all 11 1 attended 9 1 attended 6 1 attended 4	Total Meetings -6 2 attended all 6 1 attended 3	Total Meetings -6 2 attended all 6 1 attended 5 1 attended 4	Total Meetings -8 2 attended all 8 1 attended 7	Total Meetings 7 1 attended all 7 2 attended 5 2 attended 4 1 attended 1
4	Information about literacy & financial expertise of the committee.	√					√	√
5	Information about participation of head of finance, statutory auditors, chief internal auditors, and other invitees in the committee meetings.						√	
6	Disclosure of audit committee charter & terms of reference.	√	√	√	√	√	√	√
7	Publishing of committee report							

Source: Annual Reports 2010-2011; ID- Independent Directors; TM - Total Members in the Audit Committee as on 31st March 2011; NED-

Non- Executive Directors

Observations From Table 4:

- All the banks have minimum three members in their audit committee
- AXIS & Kotak Mahindra Bank audit committee comprises of one member as executive
- All the banks have majority of Independent Directors and a non- executive/ independent chairman.
- Company secretary acts as the secretary to the committee and chairman was pre Requirement of minimum no of four meetings is duly complied by all the banks.
- AXIS bank, YES bank, Indsuind bank & Kotak Mahindra bank discloses dates of meetings which show that there is a no gap of more four months between any two meetings. Rest of the banks did not disclose this information.
- Not all the banks give information about literacy & financial expertise of the committee members.
- None of the bank except Kotak Mahindra bank bothered about disclosing information about participation of head of finance, statutory auditors, chief internal auditors, and other invitees in the committee meetings.
- None of the bank publishes committee report.

Table 5
Status of Shareholders'/Investors' Grievances Committee as on 31st March, 2011

S.NO	PARTICULARS	HDFC	ICICI	AXIS	YES	INDSUIND	KOTAK MAHINDRA	DCB
1	Transparency in composition of committee.	TM - 4 NEDs - 2 IDs - 2 Chairman - NED/ ID	TM - 3 NEDs - 2 IDs* - 2 Chairman - NED/ ID	TM - 3 NEDs - 1 IDs - 1 Chairman - Executive	TM - 2 NEDs - 1 IDs - 1 Chairman - NED/ ID	TM - 2 NEDs - 1 IDs - 1 Chairman - NED/ ID	TM - 4 NEDs - 1 IDs - 1 Chairman - NED/ ID	TM - 5 NEDs - 4 IDs - 3 Chairman - NED/ ID
2	Information about nature of complaint & queries received and disposed – item wise.	Not disclosed item wise. No unattended complaints reported.	Not disclosed item-wise. No pending complaints reported.	Disclosed item-wise. No pending complaints reported.	Not disclosed item-wise. No pending complaints reported	Disclosed item- wise. No pending complaints reported	Not disclosed item- wise. Pending complaints reported.	Not disclosed item-wise. No pending complaints reported.
3	Information about number of committee meetings.	Total Meetings- 10 3 attended 7 1 attended 3 1 attended 2	Total Meetings- 5 2 attended all 5 1 attended 4 attended- Nil	Total Meetings- 4 2 attended all 4 1 attended 3 1 attended 1 1 attended- Nil	Total Meetings- 2 2 attended all 2	Total Meetings- 2 2 attended all 2	Total Meetings- 2 3 attended all 2 1 attended 1	Total Meetings- 4 2 attended all 4 2 attended 2 1 attended 1
4	Information about investors/ shareholder survey conducted.							
5	Publishing of committee report.							

TM - Total Members as on 31st march 2011; NEDs - Non- Executive Directors; IDs - Independent Directors
Source: Annual Reports 2010-2011

Observations From Table 5:

- All the private sectors banks have complied with the requirements of Clause 49 of the Listing Agreement in regard to composition of the shareholders/ investors grievance committee. They have also furnished required information regarding the number of committee meetings held during the year to monitor shareholder doubts and grievances.
- A good thing was that almost all the grievances which were received, were disposed off as reported regarding nature of

complaints and their disposal. However nature of queries & complaints were not split item wise by any of these banks except AXIS & Indsuid bank.

- These banks failed to carry out a survey on their investors and shareholders level of satisfaction and none is interested in publishing committee report.
- These institutions use their external registrars and share transfer agents to carry out tasks like physical transfer, transmission, splitting of share certificates etc

Table 6
Status of Remuneration Committee as on 31st March, 2011

S. N O .	PARTICULARS	HDFC	ICICI	AXIS	YES	INDSUIND	KOTAK MAHINDRA	DCB
1	Transparency in composition of the committee.	TM - 4 NEDs - 4 IDs - 4 Chairman - NED/ ID	TM - 3 NEDs - 3 IDs - 2 Chairman - NED/ ID	TM - 5 NEDs - 4 IDs - 4 Chairman - NED/ ID	TM - 3 NEDs - 2 IDs - 2 Chairman - NED/ ID	TM - 4 NEDs - 3 IDs - 1 Chairman - NED	TM - 4 NEDs - 3 IDs - 3 Chairman - NED/ ID	TM - 3 NEDs - 3 IDs - 3 Chairman - NED/ ID
2	Information about Remuneration of Directors	√	√	√	√	√	√	√
3	Information about nature of complaint & queries received and disposed - item wise.							
4	Information about number of committee meetings.	Total Meetings - 3 1 attended all 3 3 attended 2 1 attended 1 2 attended Nil	Total Meetings - 7 1 attended all 7 2 attended 6 2 attended 2 3 attended 1	Total Meetings - 1 3 attended all 1 2 attended Nil	Total Meetings - 2 2 attended all 2 2 attended 1	Total Meetings - 4 2 attended all 4 1 attended Nil	Total Meetings - 7 1 attended all 7 1 attended 6 1 attended 5 1 attended 4	Total Meetings - 5 3 attended all 5
5	Information about investors/ shareholder survey conducted.							
6	Publishing of committee report							

NEDs - Non- Executive Directors; IDs - Independent Directors; TM - Total Members as on 31st march 2011 Source: Annual Reports 2010 2011

Observations From Table 6:

- All the banks complied with the conditions of Clause 49 of the Listing Agreement as the committee of all the banks fulfils the condition of minimum requirement of 3 Non-Executive Directors as per the said Clause.
- All the banks have an independent chairman of the

committee except Indsuid bank which got a Non-Executive chairman.

- None of the bank seems interested to conduct a survey to gather information about investors/ shareholder satisfaction level. Also none of the banks publish its committee report.

Table 7
Items of Statutory Disclosures / Requirements and their Status of Compliance for the Year 2010-2011

S . N o	ITEMS OF STATUTORY DISCLOSURE	HDFC	ICICI	AXIS	YES	INDSUIN D	KOTAK MAHINDR A	DCB
1	Significant related party transactions having potential conflict with the interest of the company.	Disclosed as no potential conflict with related party.	Disclosed as no potential conflict with related party.	Disclosed as no potential conflict with related party.	Disclosed as no potential conflict with related party.	Disclosed as no potential conflict with related party.	Disclosed as no potential conflict with related party.	Disclosed as no potential conflict with related party.
2	Non-compliance related to capital market matters during the last 3 years.	Non-compliance reported	No penalties or strictures imposed during the last 3 years	Penalties or strictures are imposed.	No penalties or strictures imposed during the last 3 years	No penalties or strictures imposed during the last 3 years	No penalties or strictures imposed during the last 3 years	No penalties or strictures imposed during the last 3 years
3	Accounting treatment	√	√	√	√	√	√	√
4	Board disclosure- Risk Management	√	√	√	√	√	√	√
5	Management discussion and analysis (MD&A)	√	√	√	√	√	√	√
6 a b c d	Shareholders information on : Appointment of new director / re-Appointment of retiring directors Quarterly results & Presentation Share-Transfers Directors' responsibility statement	√	√	√	√	√	√	√

Observations From Table 7:

- All the banks duly complied in disclosing items of statutory/ mandatory nature in their annual reports.
- None of the banks enter into significant related party transactions having potential conflict with the interest of the company with its promoters, directors, management and/or relatives etc.
- Except AXIS & Indsuid bank, none of the banks have penalties or strictures imposed on them by any of the stock exchanges or any statutory authority on any matter relating to capital markets.

Table 8
Items of Non- Mandatory Disclosures / Requirements and their Status of Compliance for the year 2010-2011

S. N O	Items of Non- Mandatory Disclosures	HDFC	ICICI	AXIS	YES	INDSUI ND	KOTAK MAHIND RA	DCB
1	Shareholder right (e.g. information & half yearly declaration of financial performance sent to shareholders)	√	√	√	√	√	√	√
2	Audit Qualification	√	No information provided in the Corporate Governance report	No information provided in the Corporate Governance report	No information provided in the Corporate Governance report	Unqualified financial statements	No audit qualification reported	No audit qualification reported
3	Training of board members	√	No information provided in the Corporate Governance report	No information provided in the Corporate Governance report	No information provided in the Corporate Governance report	√	No information provided in the Corporate Governance report	No information provided in the Corporate Governance report
4	Evaluation of non executive directors	√	Evaluation mechanism not disclosed in Corporate Governance report	√	No information provided in the Corporate Governance report	Non-compliance reported in the Corporate Governance report	√	Evaluation mechanism not disclosed in Corporate Governance report
5	Whistle Blower Policy	√	√	√	√	√	√	√

Source: Annual Reports 2010-2011

Observations From Table 8:

- Means of communication or Shareholders' right and adoption of Whistle Blower policy is strictly followed by all the banks.
- All the banks did not seriously follow the non- mandatory disclosures.

Conclusion And Suggestions:

After analysis and interpretation, it is concluded that

maximum mandatory information is disclosed through annual reports. While more efforts are required towards disclosing non mandatory items. Following points are suggested to improve present condition:-

1. Composition of various committees should be more transparent.
2. Committees should publish its meeting reports so that interested parties may know what happened in the meetings.

3. There must be mandatory provisions regarding evaluation of non-executive directors and their training and it must be disclosed in annual reports also.

4. Investors/ shareholder survey must be conducted to know about their satisfaction level.

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