A Study on Corporate Governance Practices of Indian Financial Sector Companies

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1.1 INTRODUCTION

Corporate governance has been widely recognized for the success of corporations in the business environment. This has been in limelight when the number of scandals, such as Enron, Parmalat, WorldCom or Lehman Brothers, came into picture and significant essence has been felt worldwide for effective corporate governance. Corporate governance practices need to be constantly evaluated against the backdrop of an increasingly uncertainand complex business environment. Globally, there has been much debate on 'what constitutes good governance?' Governance norms have primarily focused on the higher responsibilities, tighter regulation for the board of directors and the increase in shareholder activism. There is, however, no standard metrics to determine the success of corporate governance practices.The mandatory checklist approach for corporate governance has severe limitations in terms of its effectiveness. Similarly, relying entirely on an overarching set of principles without any binding rules has also its shortcomings.

Recently, many countries have opted for a middlepath approach, where key for success is recognized by way of *'comply-or-explain'*governance code, which is rational too, as it ensures that companies adhere to basic codes and standards. For the long-term interests of the stakeholders,it provides flexibility and accommodates new ideas. This approach encourages companies to be more transparent, as any deviation needs tobe publicly explained.Ultimately, long-term sustainability of companies depends on how strong the conviction is to continuously strive in adopting better governance practices. While the business environment may undergo radical change, the underlyingprinciples of transparency, integrity and accountability must remain steadfast.Good Corporate Governance practices are an integralelement of business. It is not just a pre-requisite forfacing intense competition for sustainable growthin the emerging global market scenario but is an embodiment of the parameters of fairness, accountability, disclosures and transparency to maximizethe value for the stakeholders. Corporate Governance is about commitment to values, ethical business conduct, and contribution towards social causes and considering all stakeholders' interest in the fair conduct ofbusiness.

Effective corporate governance is recognized as an important tool for therisk management and the socioeconomic development, which is possible by ensuringthe economicefficiency, growth and stakeholder confidence. This can be well recognized, while analyzing the seeds of modern corporate governance, which were most probably sown by the Watergate scandal in the US, resulting in subsequent investigations, where the US regulatory and legislative bodies able to pinpoint control failures, which had allowed many of the corporations to make illegal political contributions. This led the enactment of the Foreign and Corrupt Practices Act of 1977 in USA that focuses the specific provisions for the establishment, maintenance and review of internal control systems.1979 was recognized yearfor the Securities and Exchange Commission of US, which made mandatory reporting on internal financial controls. In 1985, following a series of high profile business failures in the USA, the most notable one of which being the Savings and Loan collapse, the Tread way Commission was formed with its primary role to identify the main causes of misrepresentation in financial reports and to recommend ways of reducing incidence thereof.

The Tread way report published in 1987 highlighting the need for a proper control environment, independent audit committees and an objective Internal Audit function. It called for published reports on the effectiveness of internal control and requested the sponsoring organizations to develop an integrated set of internal control criteria to enable companies to improve their systemic measures.Accordingly Committee of Sponsoring Organizations (COSO) was setup and its report in 1992 specified a control framework, which has been endorsed and refined in the subsequent UK based committees reports, namely Cadbury, Rutteman, Hampel and Turnbull. When the developments in the United States stimulated debate in the UK, a spate of scandals and collapses in that country in the late 1980s and early 1990's led shareholders and banks to worry about their investments. These also led the UK government to recognize that the existing legislation and regulations were ineffective. Companies including the BCCI, British & Commonwealth, Polly Peck and Robert Maxwell's Mirror Group News International were victimized as the boom-to-bust in decade of the 1980s. Some companies, which saw impressive growth in earnings, were ended the decade in a memorably disastrous manner.

These spectacular corporate failures arose primarily for a nominal reason of poorly managed business practices.It was an attempt to prevent the reoccurrence of such business failures, the Cadbury Committee, was set up by the London Stock Exchange in May 1991, under the chairmanship of Sir Adrian Cadbury. The committee, consisting representation from the top levels of British Empire, was given the task to draft a code of practices to assist corporations in UKby defining and applying effective internal controls to limit their exposure to financial losses.

1.2 OBJECTIVES OF CORPORATE GOVERNANCE

Good governance is integral to the very existence of a company. As it inspires and strengthens the investor's confidence by ensuring company's commitment to the higher level of growth and profits. It seeks to achieve following objectives:

- A properly structured Board capable of taking independent and objective decisions is in place at the helm of affairs;
- The Board adopts transparent procedures and practices and arrives at decisions on the strength of adequate information;
- The Board effectively and regularly monitors the functioning of the management team; and
- The Board has an effective machinery to serve the concerns of stakeholders;
- The Board is balanced as regards the representation of adequate number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders;
- The Board keeps the shareholders informed of relevant developments impacting the company;
- The Board remains in effective control of the affairs of the company at all times.

1.3 KEY COMPONENTS OF GOOD CORPORATE GOVERNANCE

Good governance is conclusively the indicator of personal beliefs and valuesthat configure the organizational beliefs, values and actions of its Board. The Board, which is a main functionary is primary responsible to ensure the value creation for its stakeholders. In the absence of clarity on designated role and powers of the Board, it weakens the accountability mechanism that subsequently, threatens the achievement of organizational goals. Therefore, the key requirement of good governance is theclarity on part of identification of powers, responsibilities, roles and accountability of top position holders, including the Board, the Chairman of the Board and the CEO. In such cases, role of the Board should be clearly documented in a Board Charter, which can be followed throughout.To elaborate the above discussion, following are the essential elements of good corporate governance:

- A well-structured Audit Committee setup is required to work as liaison with the management, internal and statutory auditors. Importance of such is to review the adequacy of internal control and compliance with significant policies and procedures, reporting to the Board on the key issues.
- Accountability towards the stakeholders with an objective to serve the stakeholders through strong and sustained communication processesat a regular interval.
- Clear documentation of company's objectives as a part of long-term corporate strategy including an annual business plan together with achievable and measurable performance targets.
- Effective whistle blower policy is another element, whereby the employees may report to the top management about any suspected frauds, unethical behavior or violation of company's code of conduct. Appropriate mechanism should be in place for adequate safeguard to such employees.
- Emphasis on healthy management environment, which includes appropriate ethical framework, clear objectives, establishing due processes, clear enunciation of responsibility and accountability, sound business planning, establishing performance evaluation measures.
- Fair and unambiguous legislation and regulations.
- Fairness to all stakeholders.
- Focus on social, regulatory and environmental concerns
- Identification and analyzing risk is an important element of corporate functioning and governance, which should be appropriately taken into consideration as remedial measures. This can be well settled by formulating a mechanism of periodic reviews of internal and external risks.
- To be specific on norms of ethical practices and code of conduct that is required to be communicated to all the stakeholders.
- Transparency and independence in the functioning of the Board, where Board should provide effective leadership for achieving sustained prosperity for all stakeholders, which can be possible by providing independent judgment in achieving the company's objectives.

1.4 WHY IS CORPORATE GOVERNANCE IMPORTANT?

- It enhances higher possibilities in delivering sustainable good business performance.
- It ensures that a well governed company is accountable and transparent towards its shareholders and other stakeholders.
- It ensures that the business environment is fair and transparent enough for companies that one may be held accountable for their actions.
- It has emerged as new way to manage modern joint stock corporations, which are equally significant in cooperatives, state-owned enterprises and family businesses.

1.5 BENEFITS OF CORPORATE GOVERNANCE

Corporate governance has a unique and important place for the companies and different stakeholders. Following corporate governancecodes benefits the owners and managers of companies and increase transparency and disclosure by enhancing access to capital and financial markets.It emphasizes to survive at a crucial period in an increasingly competitive environment through mergers, acquisitions, risk reduction and partnerships through asset diversification.Corporate governance ensures to provide an exit policy with a smooth inter-generational transfer of wealth and divestment of family assets that can reduce the chance for conflicts of interest.It leads to a greater accountability, better system of internal control and better profit margins for the company. It also provides higher potential for future diversification, excessive growth, attracting equity investors (nationally and abroad), and reduction in the cost of credit for corporations.

Corporate governance can provide proper incentives for the board and management that match the objectives, which are in the interest of the company and the shareholders. It ensures greater security to the investment of the shareholders.It creates an environment, where shareholders are sufficiently informed on decisions concerning fundamental. From various empirical researches, it has been found that majority of global institutional investors are willing to pay a premium for the shares of a well-governed company over the other poorly governed companies, which have an impressive and comparable financial record.

1.6 THEORIES OF CORPORATE GOVERNANCE

1.6.1 The Agency Theory

Agency Theory is also referred as the Principal-Agent Theory, as it focuses the governance relationship between the shareholder (the Principal) and the Director (the Agent). Since the early work of Berle and Means in 1932, corporate governance has focused upon the separation of ownership and pedals which results in principal-agent problems arising from the dispersed ownership in the modern corporation. They regarded corporate governance as a mechanism, where a board of directors is a crucial monitoring device to minimize the problems brought about by the principal-agent relationship. In this context, agents are the managers, principals are the owners and the boards of directors act as the monitoring mechanism (Mallin, 2004). There are two important factors in agency theory. The first is that corporations are reduced to two participants, i.e., managers and shareholders, whose interests are assumed to be both clear and

consistent. The second factor encompasses that humans are self-interested and disinclined to sacrifice their personal interests for the interests of the others (Daily, Dalton & Cannella, 2003).

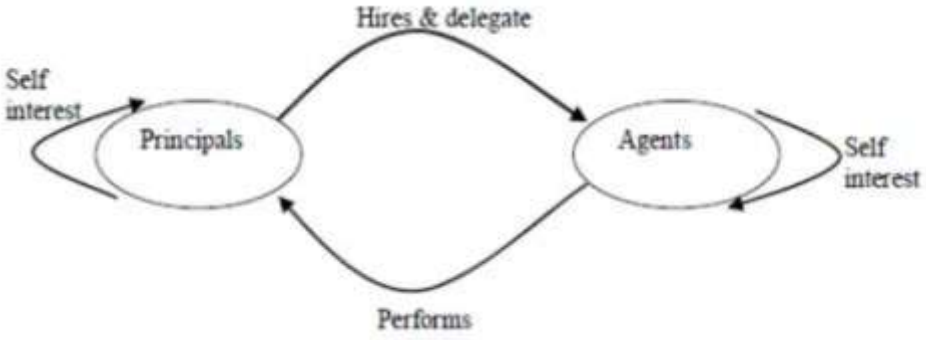


Figure – 1.1: The Agency Theory Model

Source: Abdoullah and Valentine (2009)

The seminal papers of Alchian and Demstez (1972) and Jensen and Meckling (1976), describe the firm as a nexus of contracts among individual factors of production resulting in the emergence of the agency theory. The firm is not an individual but a legal fiction, where conflicting objectives of individuals are brought into equilibrium within a framework of contractual relationships. These contractual relationships are not only with employees, but with suppliers, customers and creditors (Jensen & Meckling, 1976). The intention of these contracts is that all the parties acting in their self-interest are motivated to maximize the value of the organization, reducing the agency costs and adopting accounting methods that most efficiently reflect their own performance (Deegan, 2004).

The agency role of the directors refers to the governance function of the board of directors in serving the shareholders by ratifying the decisions made by the managers and monitoring the implementation of those decisions. This role has been examined in a large body of literature (Fama& Jensen, 1983; Baysinger & Butler, 1985; Lorsch & MacIver, 1989; Baysinger & Hoskisson, 1990; Daily & Dalton, 1994). Much of these researches have examined board composition due to the importance of the monitoring and governance function of the board (Pearce & Zahra, 1992; Barnhart, Marr & Rosenstein, 1994; Daily & Dalton, 1994; Gales & Kesner, 1994; Bhagat & Black, 1998; Kiel & Nicholson, 2003), because according to the perspective of agency theory the primary responsibility of the board of directors is towards the shareholders to ensure maximization of shareholder value. The focus of agency theory of the principal and agent relationship has created uncertainty due to various information asymmetries (Deegan, 2004). The separation of ownership from management can lead to managers of firms taking action that may not maximize shareholder wealth, due to their firm specific knowledge and expertise, which would benefit them and not the owners; hence a monitoring mechanism is designed to protect the shareholder interest (Jensen & Meckling, 1976). This emphasizes the role of accounting in reducing the agency cost in an organization, effectively through written contracts tied to the accounting systems as a crucial component of corporate governance structures, because if a manager is rewarded for their performance such as accounting profits,

they will attempt to increase profits, which will lead to an increase in bonus or remuneration through the selection of a particular accounting method that will increase profits.

Arising from the above is the agency problem on how to induce the agent to act in the best interests of the principal. This results in agency costs, for example monitoring costs and disciplining the agent to prevent abuse (Shleifer & Vishny, 1997). Jensen and Meckling (1976) define agency costs: the sum of monitoring expenditure by the principal to limit the aberrant activities of the agent; bonding expenditure by the agent which will guarantee that certain actions of the agent will not harm the principal or to ensure the principal is compensated if such actions occur; and the residual loss which is the dollar equivalent to the reduction of welfare as a result of the divergence between the agents decisions and those decisions that would maximize the welfare of the principal. However, the agency problem depends on the ownership characteristics of each country. In countries where ownership structures are dispersed, if the investors disagree with the management or are disappointed with the performance of the company, they use the exit options, which will be signaled through reduction in share prices. Whereas countries with concentrated ownership structures and large dominant shareholders, tend to control the managers and expropriate minority shareholders in order to gain private control benefits (Spanos, 2005).

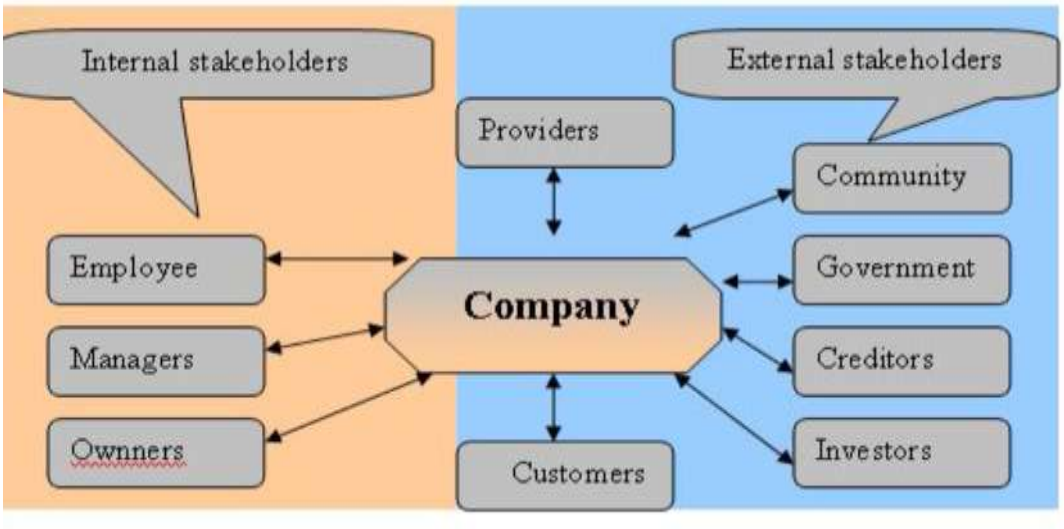
The agency model assumes that individuals have access to complete information and investors possess significant knowledge of whether or not governance activities conform to their preferences and the board has knowledge of investors' preferences (Smallman, 2004). Therefore according to the view of the agency theorists, an efficient market is considered a solution to mitigate the agency problem, which includes an efficient market for corporate control, management labour and corporate information (Clarke, 2004). According to Johanson and Ostergen (2010) even though agency theory provides a valuable insight into corporate governance, its' applies to countries in the Anglo-Saxon model of governance as in Malaysia. Various governance mechanisms have been discussed by agency theorists in relation to protecting the shareholder interests, minimizing agency costs and ensure alignment of the agent-principal relationship. Among the mechanisms that have received substantial attention, and are within the scope of this study, are the governance structures (Davis, Schoorman & Donaldson, 1997).

1.6.2 The Stakeholder Theory

This theory centres on the issues concerning the stakeholders in an institution. It stipulates that a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951). However, there is an argument that the theory is narrow (Coleman, 2008) because it identifies the shareholders as the only interest group of a corporate entity. However, the stakeholder theory is better in explaining the role of corporate governance than the agency theory by highlighting different constituents of a firm (Coleman, 2008).

Since the shareholders are recognized as the owners of the company under the business law in many countries and at the same time the firm has a fiduciary duty to maximize their returns and keeping their needs on first priority. Under the existing business model, the institution converts the inputs of employees, investorsand suppliers into such forms, which are saleable to customers, which returns back to its shareholders in a circular manner. Needs of investors, employers, suppliers and customers are well. The stakeholder theory suggest that the parties involved should include trade associations, governmental bodies, political groups, trade unions, associated

corporations, communitiesand the general public. In some exceptional scenarios competitors and prospective clients can also be regarded as stakeholders in improve the business efficiency.



Figure–1.2: TheStakeholders Theory Model

Source: Achim and Borlea (2013)

The stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman et. al., 2004). Jensen (2001) critiques the Stakeholder theory for assuming a single-valued objective (gains that accrue to a firm's constituency). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, interpersonal relations, working environment, etc. are all critical issues that should be considered. Some of these other issues provided a platform for other arguments. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et. al., 2005).

In order to differentiate among stakeholder types, Rodriguez et al., (2002): classification was adopted; consubstantial, contractual and contextual stakeholders (see Figure 1.2). Consubstantial stakeholders are the stakeholders that are essential for the business's existence (shareholders and investors, strategic partners, employees). Contractual stakeholders, as their name indicates, have some kind of a formal contract with the business (financial institutions, suppliers and sub-contractors, customers). Contextual stakeholders are representatives of the social and natural systems in which the business operates and play a fundamental role in obtaining business credibility and, ultimately, the acceptance of their activities (public administration, local communities, countries and societies, knowledge and opinion makers) Rodriguez et al., (2002).

Rajan and Zingales (1998) and Zingales (1998) argue that the company has to safeguard the interests of all who contribute to the general value creation, that is, make specific investments to a given corporation. These firms-specific investments can be diverse and include physical, human and social capital.

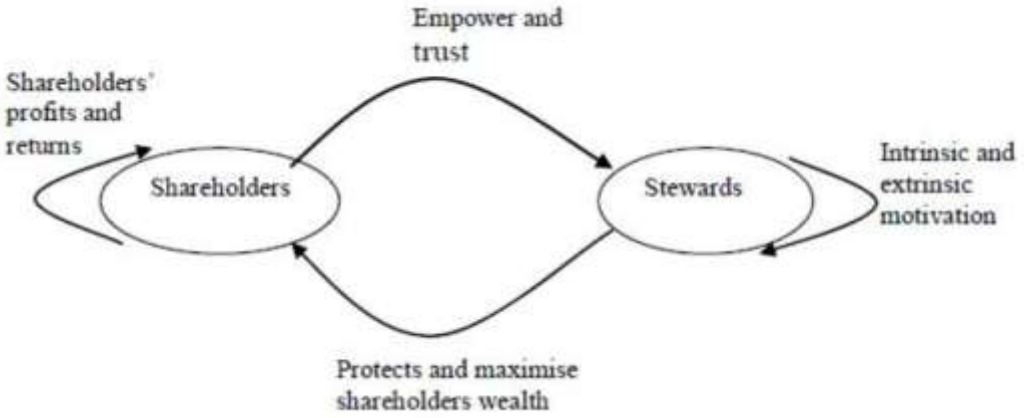
1.6.3 The Resource Dependency Theory

The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. In this perspective, directors serve to connect the firm with external factors by co-opting the resources needed to survive (Pfeffer and Salancik, 1978). Thus, boards of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm. Williamson (1985) held that environmental linkages or network governance could reduce transaction costs associated with environmental interdependency. The organization's need to require resources and these leads to the development of exchange relationships or network governance between organizations. Further, the uneven distribution of needed resources results in interdependence in organizational relationships. Several factors would appear to intensify the character of this dependence, e.g. the importance of the resource(s), the relative shortage of the resource(s) and the extent to which the resource(s) is concentrated in the environment (Donaldson and Davis, 1991).

Additionally, directors may serve to link the external resources with the firm to overwhelm uncertainty (Hillman, CannellaJr & Paetzols, 2000), because managing effectively with uncertainty is crucial for the existence of the company. According to the resource dependency rule, the directors bring resources such as information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty (Gales & Kesner, 1994). Thus, Hillman et al. (2000) consider the potential results of connecting the firm with external environmental factors and reducing uncertainty is decrease the transaction cost associated with external association. This theory supports the appointment of directors to multiple boards because of their opportunities to gather information and network in various ways.

1.6.4 The Stewardship Theory

In contrast to agency theory, stewardship theorypresents a different model of management, where managers are considered good stewards who will act in the best interest of the owners (Donaldson & Davis 1991). The fundamentals of stewardship theory are based on social psychology, which focuses on the behavior of executives. The steward's behavior is pro-organizational and collectivists, and has higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization (Davis, Schoorman & Donaldson 1997). According to Smallman (2004) where shareholder wealth is maximized, the steward's utilities are maximized too, because organizational success will serve most requirements and the stewards will have a clear mission. He also states that, stewards balance tensions between different beneficiaries and other interest groups. Therefore, stewardship theory is an argument put forward in firm performance that satisfies the requirements of the interested parties resulting in dynamic performance equilibrium for balanced governance. *(See Figure 1.3)*



Figure–1.3: The Steward Theory Model

Source: Abdoullah & Valentine (2009)

The stewardship theory sees a strong relationship between managers and the success of the firm, and therefore the stewards protect and maximize shareholder wealth through firm performance. A steward, who improves performance successfully, satisfies most stakeholder groups in an organization, when these groups have interests that are well served by increasing organizational wealth (Davis, Schoorman & Donaldson 1997). When the position of the CEO and Chairman is held by a single person, the fate of the organization and the power to determine strategy is the responsibility of a single person. Thus the focus of stewardship theory is on structures that facilitate and empower rather than monitor and control (Davis, Schoorman & Donaldson 1997). Therefore stewardship theory takes a more relaxed view of the separation of the role of chairman and CEO, and supports appointment of a single person for the position of chairman and CEO and a majority of specialist executive directors rather than non-executive directors (Clarke 2004).

1.6.5 The Enlightened Shareholders Theory

Under this theory, interests of diversified stakeholder groups (including shareholders) are emphasized by satisfying the needs and interests of stakeholders. This has been referred as crucial approach in corporate success and for creation of corporate wealth. This can only be possible by satisfying stakeholder's needs and responding to their interests resulting in generating company's profit and shareholders health. In this way, shareholders are benefitted when the board satisfies the stakeholder's interests, this is because profits are made and they are primary stakeholders. Enlightened shareholders theory gives emphasis on shareholders however; differ with classical stewardship theory, as boards are essentially required to take stakeholders interest to top. Although they are required to explain their actions taken to all the stakeholders, it includes the process in which such decisions have exposed the company to risk.

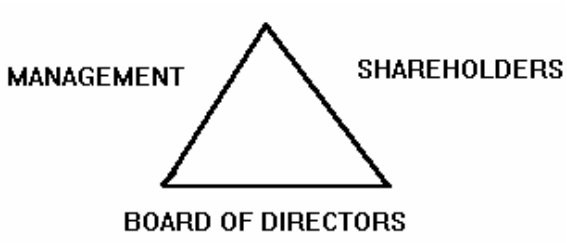
1.7 MODELS OF CORPORATE GOVERNANCE

Corporate governance is based on different approaches including rules based, principles based, discretionary, or legalistic. Similarly, different models are referred around the world. Mainly five models of corporate governance are identified with their worldwide recognition, namely, UK, American, Continental European, Japanese and Asian. Each one has its own significance and focus. These are being examined in detail below:

1.7.1 The Anglo-US Model

This model governs corporations in the US, Australia, UK, New Zealand, Canada and manyother countries.The Anglo-US model is characterized by share ownership of individual, and increasinglyinstitutional, investors not affiliated with the corporation (known as outside shareholders or"outsiders"); a well-developed legal framework defining the rights and responsibilities of three keyplayers, namely management, directors and shareholders; and a comparatively uncomplicatedprocedure for interaction between shareholder and corporation as well as among shareholders duringor outside the AGM.Major corporations in UK and US are commonly adopting equity financing as a common method of raising capital. US have been witnessed as the largest capital market inthe world, and at the same time the London Stock Exchange is the third largest stock exchange in the world (interms of market capitalization), which is after the New York Stock Exchange (NYSE) and Tokyo (TOSHO).

Based on the above fund raising mechanism being adopted by these developed counties, causal relationship between the size of the capital market, importance of equity financing and the development of a corporate governance system is highly correlated. The US is considered as the world'slargest capital market as well as the home of the world's most-developed system for proxy voting andshareholder activism by the institutional investors, where institutional investors play a crucial role inthe capital market and corporate governance in the UK. Key players in the Anglo-US modelincludes the directors, management, shareholders, stock exchanges, government agencies, consulting firms and self-regulatory organizations, which advise corporations and shareholders on corporate governance and proxyvoting.Of these, the three major players are management, directors and shareholders. They formwhat is commonly referred to as the "corporate governance triangle." The interests and interaction of these players is diagrammatically represented below in *Figure 1.4*:



Figure–1.4: The Anglo-US Model

Source: The Audit Universe (2016)

This model was developed assumingthe separation of ownership and control in most publiclyheld corporations within the context of the free market economy. This distinction serves a social purpose and valuable business, where investors contribute capital and maintainownership in the enterprise, by avoiding legal liability for the acts of the corporation.In this scenario, investors avoid legal liability by abandoning to management control of the corporation, and payingmanagement for posing as their agent by undertaking the affairs of the corporation. The cost of thisseparation of ownership and control is defined as "agency costs".

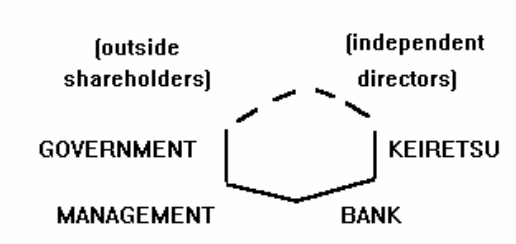
1.7.2 The Japanese Model

The Japanese model is characterized by a high level of stock ownership by affiliated banksand companies; a banking system characterized by strong, long-term links between bank

andcorporation; a legal, public policy and industrial policy framework designed to support and promote"keiretsu" (industrial groups linked by trading relationships as well as cross-shareholdings of debtand equity); boards of directors composed almost solely of insiders; and a comparatively low (in somecorporations, non-existent) level of input of outside shareholders, caused and exacerbated bycomplicated procedures for exercising shareholders' votes.

Equity financing is important for Japanese corporations, where insiders and theiraffiliates are the major shareholders. They have majorrole to play in individual corporations and in the system as a whole. Conversely, the interests of outsideshareholders are marginal. The percentage of foreign ownership of Japanese stocks is at lower side, which becomes an important factor in making the model more responsive to outside shareholders. Under the Japanese model of corporate governance, it is multi-dimensional, centering on a main bankand an industrial network or keiretsu.Here, 'main bank system' and 'the keiretsu' are two different entities, even though they are overlapping and complementaryelements. Almost all the Japanese corporations have a close end relationship with amain bank, where the bank provides to its corporate client loans as well as variety of services including equity issues, bond issues, settlement accounts and related consulting services. An important point need to be noted is that the main bank is generallya major shareholder in the corporation, which is not case in US, where anti-monopoly legislation prohibits one bank from providing this multiplicity ofservices. Rather, these varieties of services are handled by different institutions, such as investment bank - equity issues; commercial bank – loans; specialized consulting firms - proxy voting and other services.

Many of the Japanese corporations have strong financial relationships with a network of associated companies. These networks are characterized by trading ofgoods and services, crossholdings of debt and equity and informal business contacts, which are known as keiretsu.Government driven industrial policiesare also playing key role in the governance process. Sincethe 1930s, the Japanese government has pursued an active industrial policy with a mandate to assistJapanese corporations. Under this policy emphasis was to have official and unofficial representation on corporate boards, especially, when a corporation faces financial instability. In comparison with the Anglo-US model, non-associated shareholders have petite or no voice inJapanese governance, resulting inless representation of truly independent directors, whorepresents outside shareholders.The Japanese model is an open-ended hexagon, diagrammatically presented below, where the base of the figure has four connecting lines, representing the linked interests of the four major players, namely: management, government, bank and keiretsu. The open lines at the top represent the non-linkedinterests of outside director's andnon-associated shareholders, as they have insignificant role to play (See Figure-1.5).



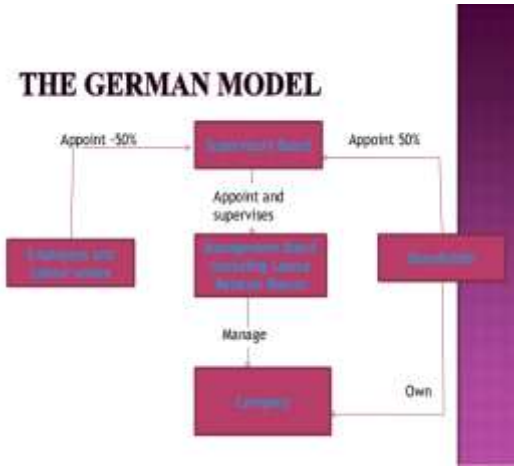
Figure–1.5: The Japanese Model

Source: The Audit Universe (2016)

1.7.3 The German Model

The German model is significantly different from the Anglo-US as well the Japanese model of corporate governance. Some of its elements are similar to the Japanese model, as the banks hold long-term stakes in companies, and the bank representativesare elected to German boards as well. Germany's leading banks play a majorrole, as in some cases public-sector banks are also key shareholders in the country.In German model three unique elements exists, namely: two tier board structure, concern over shareholder's rights and legalizing the voting rights restrictions.

The German model prescribes two boards with separate members that mean a two-tiered board structure consisting of a management board and a supervisory board.Here 'management board'is composed of insiders, including executives of the corporationand the 'supervisory board' composed of employeerepresentatives and shareholder representatives.As can be seen that these two boards are completely distinctive in nature, no one mayserve simultaneously on a company's management board and supervisory board. Interestingly, the sizeof the supervisory board is set by law, which cannot be changed by shareholders. Another feature of the model is that in Germany and other countries, which are following this model, voting right restrictions arelegal, which limit a shareholder to voting a certain percentage of the company's total share capital, and not based on the share ownership position. *(See Figure 1.6)*



Figure–1.6: The German Model

Source: Fernando (2012).

In Germany, many companies have priority of bank financing than equity financing, resultingsmall capitalization in German stock market. As a part of conservative investment strategy, the level of individual stock ownership is low. This reflects that corporategovernance structure is notably building strong relationships between banks, key players, and corporations. The system is somewhat uncertain towards minority shareholders, as it allows them interaction by permitting shareholder proposals, which is balanced by companies by imposing voting rightsrestrictions. If the percentage of foreign ownership of German equity is considered, it was 19% in 1990.This significant factor is slowly affecting the German model, as the foreign investors fromEU and other regions started advocacy for their interests. Similar case is noticed when in 1993Daimler-Benz AG decidedto list its shares on the NYSE, it was asked to adopt US GAAP, which is strong implication of globalization and strong corporate governance, as a result

these accounting principleswere provided much greater financial transparency than German accounting standards.

As far as key players in German model are considered, German banks and corporate shareholders have key role to play in the German corporate governance system, as companies are also shareholders, holding long-term stakes in othercompanies, they may even take place where there is no industrial or commercial association between the two. This model isbit similarto the Japanese model but very different from the Anglo-USmodel, where neither banks nor companies are important institutional investors. Another unique feature in German model is that it has mandatory inclusion of employee representatives on larger Germansupervisory boards, which is missing in case of the Anglo-US andJapanese models.

1.7.4 The Asian Family Based Model

Tricker (2015) identified the Asian family based model of corporate governance, where the 'Overseas Chinese' term was used to describe Chinese business people. In this case over the years, expansion of the Chinese Diaspora from mainland has now key role to play in the business life of South East Asia region. As a result, many corporate houses in countries like Singapore, Malaysia, Thailand, Philippines, Taiwan and Indonesia are well controlled and managed by the Chinese residents. Majority of the shareholding lies with Chinese. Further examining the Asian Family based model, it came into light that in the governance of these Chinese companies, the Board structure role is crucial in terms of exercising their power, which is primarily based on relationship between the key players (between dominant head of the family and other members of the family at the top position in the management). They seem to be from diversified groups with considerable delegation of power to their subsidiary units, where family oriented small groups hold the strategic control over the corporate affair. Under this model, outside shareholders are in minority. It is ultimately the regulatory authorities in the Country, which emphasizes on the importance of disclosure and the control of related party transactions. However, such models fail on many fronts, when issues like dominance of family members, insider trading, corruption, unfair treatment of minority shareholders.

Some of the important practices adopted under this model include the following:

- It is family centric, where family has complete control.
- The control is by keeping majority equity stake within family members.
- Decision making is centralized, with an emphasis on trust and control.
- It is strategically intuitive, where business is seen more of a succession of contracts and relying on intuitions, sophisticated bargaining tactics and superstition.

CHAPTER 2: EVOLUTION OF CORPORATE GOVERNANCE IN INDIA

2.1 INTERNATIONAL SCENARIO OF CORPORATE GOVERNANCE

International scenario of corporate instability and failure is not restricted to developed or developing countries. It is,indeed a phenomenon attracted attention world over for any such organisation ignoring any of the five principles of corporate governance, i.e., fairness & integrity, transparency & disclosures, accountability, equitable treatment to all shareholders and social responsibility. The most common reasons for corporate failures and scandals were lax board, fraud, lack of transparency and inadequate disclosure, failure of internal/external audit and unethical business conduct. Some renowned and high volume corporate failures leading the foundations for significant role of corporate governance in the globalized era are summarized below.

The Barings Bank in UK failed during 1995 by losing more than $1 billion in unethical behaviour of trading. The HIH Insurance, an Australia based company, met losses of around US$5.3 billion during 2001 due to inefficient Board, ineffective audit committee and poor decision making under the dominance of its CEO. In the same year Enron, a US based company reported an accounting loss of US$618 million and reasons identified for misgovernance were unethical corporate functioning, lax board and misreporting of financial statements. During 2002, six US based companies namely, Tyco, Xerox Corporation, Global Crossing, World Com, Adelphia Communications and Andersen Worldwide reported corporate failure and scandals. Major problems noticed in these cases was misreporting of financial statements, lax and conflicted board, external audit failure, unethical behaviour, *etc.* Arya, et.al. (2013).

An accounting fraud of 14 billion Euros was reported in Italy based Parmalat Company during 2003 because of the falsified accounting documents. In the same year Netherland based Royal Ahold faced a problem of insider trading and unethical behaviour. In the subsequent year 2004, China Aviation Oil (Singapore/China based company) reported a loss of more than US$500 million. The reasons reported for such losses involve insider trading, misleading statements, etc.

At the international front safeguarding corporate from financial scandals and future mis governances was the serious concern of developed countries, especially for the USA and UK where maximum corporate scandals have been reported, i.e., 12 and 4, respectively. As a result, several committees constituted to address such issues have introduced various codes and standards on corporate governance. Table-1 below refers to some of the committee's setup to address the issues of corporate governance along with their major recommendations. *(See Table-2.1)*

Table-2.1: Various International Committees on Corporate Governance

Sl.	Name of Committee/ Report	Year	Country	Issue Addressed/ Major Suggestion
1.	Sir Adrian Cadbury Committee	1992	UK	Addressed financial aspects and recommended code of best practices
2.	Greenbery Committee	1995	UK	Disclosure provisions, remuneration policy, service contracts and compensation, etc.
3.	Bosch Report	1995	Australia	Composition of Board and directorship

4.	Vienot Report	1995	France	Board membership and cross shareholding
5.	CalPERS Global Corporate Governance Principles	1996	USA	Independent directors
6.	Hampel Committee on Corporate Governance	1998	UK	Audit committee, internal control and board responsibility
7.	Combined Code of Best Practices, London Stock Exchange	1998	UK	Board effectiveness
8.	Blue Ribbon Committee	1999	USA	Improving the effectiveness of Audit Committee
9.	OECD Principles of Corporate Governance	1999	-	Shareholders rights, role of stakeholders and Board, audit, disclosure and transparency.
10.	CACG Guidelines for Corporate Governance in Commonwealth	1999	-	Corporate Compliances, effective internal control, etc.
11.	Euro shareholders Corporate Governance Guidelines	2000	Europe	Membership of non-executive directors on Board.
12.	Principles of Good Governance and Code of Best Practices	2000	UK	Defined Principles of Good Governance and Code of Best Practices
13.	Joint Committee on Corporate Governance	2001	Canada	Regular assessment of board and its committees, CEO selection, etc.
14.	King Report on Corporate Governance for South Africa	2002	South Africa	Board function and composition, Director's evaluation, Codes of Directors and audit, etc.
15.	Sarbanes-Oxley (SOX) Act	2002	USA	Preventing investors, ensuring transparency and disclosure
16.	Smith Report on Audit Committee	2003	UK	Strengthening of audit committee
17.	Higgs Report	2003	UK	Effective Board composition and Accountability, etc.
18.	Revised Combined Code	2003	UK	Board composition, separate role of the Chairman and Chief Executive.
19.	OECD Principles of Corporate Governance	2004	-	Revision of existing OECD codes (1999)
20.	UNCTAD Guidelines on Good Practices in Corporate Governance Disclosure	2008	UK	Corporate reporting, Discharge of Board duties in the interest of shareholder.

Source: Arya, et.al. (2013).

2.2 INDIAN SCENARIO OF CORPORATE GOVERNANCE

The concept of corporate governance is not new in India.In ancient time of third century B.C., Chanakya, who was a well-known teacher, philosopher and a royal advisor hadreferred to four key duties of a king,which includes, Yogakshema (Safeguard), Palana (Maintenance), Vriddhi (Enhancement) and Raksha (Protection). On analyzing these four duties in the present context with the duties of top executives in companies, then it can be notice that all are similar. Here 'Yogakshema' means safeguarding the interests of the shareholders, 'Vridhi' means enhancing the wealth by properly utilizing assets, 'Palana' refers to maintenance of wealth through profitable affair and 'Raksha' is referred with protection of shareholder's wealth.If we move further then in existing scenario, corporate governance was not in the agenda of Indian companies until early 90s and therefore was also not referred much.However, experiencing some major lapses and flaws in existing legal framework, including, boards of directors without adequate fiduciary responsibilities, poor disclosure practices, undesirable stock market practices, chronic capitalism and lack of transparency, it was felt to improve in governance through rigorous reforms.

The fiscal crisis in 1991, had pushed the Indian government to take serious measures by adopting reformative actions for economic stabilization. These reforms were part of macro strategy of building industrial capabilities. Such reforms also involved a wide range of institutional and corporate level initiatives, which have reflected a good sign of corporate responsiveness and transparency in subsequent years. As a liberalization measure, the Governmentamended the Companies Act, 1956 many times including in 1999, 2000, 2002 and 2003. Several measures have been adopted by the government, which includes empowering the stock market regulator - Securities and Exchange Board of India (SEBI) and also by improving specific measures for more disclosures and enhancing transparency. Some of the major corporate governance initiatives taken since 1990s by the Government of India are discussed below.

2.3 THE CONFEDERATION OF INDIAN INDUSTRY (CII) CODE (1998)

Considering the importance of Cadbury Committee Report of UK, the CII took initiative with the objective to develop and promote a code of corporate governance for its adoption by Indian public sector and private sector companies, banking and financial institutions. In 1996 CII constituted a national level task force under the Chairmanship of Shri Rahul Bajaj, who was former President of CII. The final draft code termed *'Desirable Corporate Governance Code'*was circulated in 1997 and the final code released in 1998. Considering the fact that the corporate structure of each country vary from another country and laws pertaining to companies may also not sufficient to bring high level of transparency, protection of small investors,the Committee, came out with 17 major recommendations, which were desirable and voluntary in nature. Some of the illustrious recommendations are as follows:

- Emphasized on higher involvement of Non-executive directors in the board affairs and other key decision. They must be well defined with their responsibilities within the board and in key committees.
- Suggested restriction on directorship in more than 10 listed companies at a time by a single person.
- Introduction of at least 30% professionally competent Independent Non-executive directors in listed companies, where companies have turnover of over Rs. 100 crore and

Chairman is non-executive. However, this percentage raised to 50% in cases, where the Chairman and Managing Director isthe same person.

- ❖ Mandatory to setup the Audit Committee where listed company either have turnover of over Rs. 100 crore or a paid up capital of Rs. 20 crore.
- ❖ Recommended to have at least three members in the Audit Committee, prescribing to be from the company's non-executive directors.

2.4 THE KUMAR MANGALAM BIRLA COMMITTEE (2000)

The desirable code of CII was well responded by corporate sector as some of the progressive companies adopted it. This initiated a contextual debate on voluntary vs. mandatory approach on corporate governance, as it was felt that under Indian conditions a statutory code would be more meaningful over voluntary code. Consequently the second major initiative was undertaken by SEBI,by setting up acommittee headed by Kumar Mangalam Birla in 1999, with an objective of promoting and raising the standards of corporate governance. The Committee in its report observed "the strong Corporate Governance is indispensable to resilient and vibrant capital market and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure".

The committee had two segments of recommendations one mandatory recommendation and second non-mandatory recommendations.Focus of mandatory recommendation was improving in quality of financial reporting through its disclosures; making Audit Committee more responsible; adoption of formal code of conduct by the Board; and inclusion of business risks in annual report, etc.Non-mandatory recommendation emphasized on whistleblower, evaluating performance of non-executive directors and board members training, etc.During 2000, SEBI Board accepted and ratified the key recommendations of Kumar Mangalam Committee and incorporated into Clause – 49 of the Listing Agreementof the Stock Exchanges. The recommendations were applicable on all listed companies having paid-up capital of over Rs. 3 croreor net worth of over Rs.25 crore at any given point of time.Adoption of these recommendations was ultimately the responsibilities of the Board of Directors of these listed companies.

2.5 THE REPORT OF TASK FORCE ON CORPORATE EXCELLENCE (2000)

The Department of Corporate Affairs (DCA) constituted a study group under the chairmanship of Dr. P.L. Sanjeev Reddy, (Secretary, DCA) in May 2000, with akey task of examining ways to "operationalize the concept of corporate excellence on a sustained basis" so as to "sharpen India's global competitive edge and to further develop corporate culture in the country". In November 2000, the task force made variousrecommendations containing a range of initiatives for raising governance standards. Amongst many, some of the major recommendations are as follows:

- ❖ Higher delineation of independence criteria and minimization of interest-conflict potential.
- ❖ Directorial commitment and accountability through fewer and more focused board and committee membership.

- Meaningful and transparent accounting and reporting, improved annual report along with more detailed filing with regulatory authorities, and greater facilitation for informed participation using the advances in converging information and communications technologies.
- Setting up of an independent, Autonomous Centre for Corporate Excellence to accord accreditation and promote policy research and studies, training and education, etc., in the field of corporate excellence through improved corporate governance.
- Clear distinction between two basic components of governance in terms of policymaking and oversight responsibilities of the board of directors, and the executive and implementation responsibilities of corporate management comprising of the managing director and his or her team of executives including functional directors.

2.6 RBI ADVISORY GROUP ON CORPORATE GOVERNANCE (2001)

The RBI established the Standing Committee on International Financial Standards and Code to act as advisory group, with a mandate to examine and compare the status of corporate governance worldwide in general and to compare corporate governance in India with internationally recognized standards in particular.

2.7 RBI CONSULTATIVE GROUP OF DIRECTORS OF BANKS/ FINANCIAL INSTITUTIONS (2002)

With a view to review the supervisory role of Board of banks and the financial institutions, the RBI setup the Advisory Group of Directors of Banks and Financial Institutions in April 2002. Task of this advisory group was to obtain feedback on the functioning of the boards with reference to disclosure, transparency, various compliance and audit committee, etc. The recommendations of the advisory group emphasized the key role of board of directors in an effective manner in order to minimize risk. It also recommended reviewing existing governing framework of the Board of the banks and the financial institutions.

2.8 THE NARESH CHANDRA COMMITTEE (2002)

Year 2001 was a year of corporate scams and scandals. US based Enron disastershowed involvementof the auditor and the corporate client. Subsequently, several other scams exposed the fall of the corporate giants inUSincluding WorldCom, Global Crossing, Xerox and Owest. This resulted in consequent enactment of the stringent Sarbanes Oxley Act, 2001. This has alarmed Indian Government to wake up and to look back for its own preparedness from such collapses. The Ministry of Finance and Company Affairs formed a high level committee in August 2002, under the Chairmanship of Shri Naresh Chandra, who was former Cabinet Secretary to the Govt. of India. The objective of such committee was to examine the existing legal provisions involving the auditor- client relationships and the role of independent directors in the board. Recommendations of the committee includes at least 50% Independent Director in the Board, the rotation of audit partner at every 5 years, Audit Committee to set up with members from Independent Directors only and restriction of certain professional assignment for the auditors. In July 2003, Shri Naresh Chandra was also assigned another key committee on small private companies and limited liability partnership with an objective to remove the bottlenecks in existing legal framework being faced by these legal entities.

2.9 THE NARAYANA MURTHY COMMITTEE (2003)

The SEBI had an analysis the compliance practices on the clause-49 by the listed companies, and subsequently felt the need to look proactively beyond the mere systems and procedures, in order to make effective corporate governance by way of protecting the interest of investors. The SEBI constituted a committee under the Chairmanship of Shri N.R. Narayana Murthy (Chairman, Infosys Technologies) for reviewing implementation of the corporate governance code by listed companies and to examine the role of companies in responding to price sensitive information circulated in the market. This way, committee had to work deeply to study seven important parameters, which includes, ease of implementation, transparency, verification, importance, accountability, enforcement and fairness. The Committee came out with strong recommendations to enhance transparency. Key recommendations related to independent directors, related party transactions, audit committees, risk management, audit reports, directorships, codes of conduct, director compensation and financial disclosures.

2.10 THE J.J. IRANI COMMITTEE (2005)

Initially companies were regulated through the Companies Act 1913, which was repealed by the Companies Act 1956. The Company act, 1956 was result of the recommendations made by the Bhaba Committee, whichhad a mandate to consolidate the existing corporate laws and providing a new system for corporate operation in 1950. Since then on many occasion it was requiredto streamlinethe Company Act, from time to time, as the corporate sector grew in pace with the Indian economy. In the context of fast changing global market, need was to simplify corporatelaws by the government to provide a framework that would facilitate faster economic growth. The Government therefore took a fresh initiative in this regard and constituted a committee under the Chairmanship of Dr. Jamshed J. Irani (Former MD, TISCO) in December 2004. The objective of the committee wastoadvising the government on the proposed revisions in the Companies Act 1956.The Committee submitted its wide range of recommendations in May 2005, mainly focusing onrelated party transactions, management and investors education and protection, accounts and audit, board governance, minority interest, offences and penalties, access to capital, mergers and amalgamations, and restructuring and liquidation, etc.

2.11 CENTRAL COORDINATION AND MONITORING COMMITTEE

Consequent upon J.J. Irani Committee, The Department of Corporate Affairs setup a high powered Central Coordination and Monitoring Committee (CCMC) to monitor the action taken against the disappeared companies and unscrupulous promoters who have misused the funds. The committee was co-chaired by Secretary, Department of Corporate Affairs and Chairman, SEBI. Committee decided to form 7 Task Forces to be set up at Delhi, Mumbai, Kolkata, Chennai, Ahmedabad, Bangalore and Hyderabad with the Regional Directors/Registrar of Companies of respective regions as the convener and Regional Offices of SEBI and Stock Exchanges as Members. Key objective of such task forces was to identify and earmark such companies, which have disappeared, or which have inappropriately the funds mobilized from the investors and thereupon suggests appropriate action in terms of Companies Act or SEBI Act.

2.12 ICSI RECOMMENDATIONS TO STRENGTHEN CORPORATE GOVERNANCE FRAMEWORK (2010)

The institute of Company Secretary (ICSI), which plays a crucial role in maintaining the standard of company secretary profession, has also issued recommendations in order to strengthen corporate governance framework in India. Some of the key recommendations are referred below:

- To promote balance of power, need to demarcate the role and responsibilities of the Chairman of the board and of the Managing Director.
- To make the Remuneration Committee and the Nomination Committee mandatory.
- Independent Directors to have a maximum 6 years term.
- Introduction of Induction training for directors need to be mandatory, which can cover up roles, responsibilities and liabilities of directors.
- To make secretarial audit compulsory in respect of listed companies and can be undertaken only by the company secretary in practice.
- Mandatory adoption whistle blower policy in listed companies.
- To laid down and disclose the remuneration policy for the members of the Board.
- To compulsorily undertake rigorous annual evaluation of the Board and its committees.
- To make Corporate Compliance Committee mandatory for all public limited companies with a paid up capital of above Rs. 5 crore.

2.13 SHRI ADI GODREJ COMMITTEE (2012)

The Ministry of Corporate Affairs had constituted the committee on 07-03-2012 under the Chairmanship of Shri Adi Godrej to formulate a policy document on corporate governance. "The Guiding Principles of Corporate Governance" were developed by the committee, which was submitted to the government on 18-09-2012. The committee had advocated some of the key suggestions on strengthening the actual performance of corporate governance within the existing setup of legal provisions available with Indian corporates. It is evident from the guidelines that committee recognized the better practices that can only be encouraged by way of voluntary adoption of existing legal framework. The committee has given a broader outline on various areas. Some of the highlighted issues are listed below:

- Ensuring that a board functions effectively is getting the right "tone at the top" of the corporation.
- Focus on two primary dimensions of corporate governance that need to be "balance act", i.e, conformance or conformity (i.e. with laws, codes, structures and roles) and performance.
- Significant "Board composition and diversity" needing to balance diverging stakeholder interests
- Criteria for ensuring diversity (including gender diversity) on boards.
- To adopt a more professional, independent and transparent approach in "selection process" for appointing independent directors.
- "On-boarding / Induction Process" for new directors.
- Appointment of "lead director" (appointed as such from among the nonexecutive/ independent directors)
- "Information acquisition and quality" of such information is key for decision making.
- Improvement in "recoding of minutes"
- "Continuing Board Training and Education" for up to date with the latest trends in their field

- To take on very seriously the tasks of "evaluating the performance of the Board".
- Other important issues including "Maintaining Board Confidentiality, Succession Planning, Risk Management, Effective Crisis Management, whistle Blower policy and Investor Activism"

Almost all the policy elements considered by the Committee were stand incorporated in the Companies Act 2013. The ultimate result is such that Government in 2014 prescribed to all listed companies and their subsidiaries; or companies which have paid up capital of Rs. 5 crore or more; or companies having turnover of Rs. 100 crore or higher are compulsorily required to file their financial statements using eXtensible Business Reporting Language (XBRL). This initiative has a positive effect during 2012-13, when more than 33000 companies filed the XBRL.

2.14 THE COMPANIES ACT, 2013

The Companies Act, 1956 was active for about fifty-five years and has been amended several times. As a replacement to existing Company Act, 1956, New Companies Act, 2013was passed by the Parliament and came into force on August 29, 2013.

This is the most recent and update on corporate governance in India. Some of the important remedial aspects introduced under the New Companies Act, which categorically emphasised and analysed by Arya, *et.al.* (2013), as an effective code of corporate governance are referred below:

2.14.1 Enabling Transparency (Sec. 120)

In order to bring transparency in companies, a new sec. on 'maintenance and inspection of documents in electronic form', has been introduced, which ensures to provide any document, record, register or minute, etc., to be kept in the electronic form or allowed for inspection. This E-governance initiative enables a transparent environment including maintenance and inspection of documents in electronic form, option of keeping of books of accounts in electronic form, financial statements to be placed on company's website, holding of Board meetings through video conferencing or any other electronic mode, voting through electronic means, etc.

2.14.2 Corporate Social Responsibility (Sec. 135)

Corporate Social Responsibility, has been framed under sec. 135, enabling to constitute a Corporate Social Responsibility Committee of the Board for every company having net worth of Rs.500 crore or more, or turnover of Rs.1,000 crore or more or a net profit of Rs.5 crore or more during any financial year. Mandate of such committee is to formulate and monitor CSR policies of the company. It became mandatory to ensure that the company spends, in every financial year, at least 2% of the average net profits, made during three immediately preceding financial years.This policy initiative is having two fold effects *viz.*, one on the various social sectors and activities including education, health, hunger & poverty, gender equality & women empowerment, environmental sustainability, vocational skills & employment, etc. and second on the corporate response on the CSR compulsion.

2.14.3 Appointment of Auditors, Sec. 139 and Not to Render Certain Services (Sec. 144)

It provides that a company shall appoint an individual or a firm as an auditor at annual general meeting subject to his written consent who shall hold office till conclusion of sixth annual general meeting. It also has provisions for rotation of Auditors. Under Sec. 144, certain services have been earmarked which cannot be rendered directly or indirectly to the company or its

holding company or subsidiary company, by the auditors. These services includes, accounting and book keeping services, internal audit, design and implementation of any financial information system, actuarial services, investment advisory services, investment banking services, rendering of outsourced financial services, management services.

2.14.4 Structure of Board of Directors (Sec. 149)

This Sec. corresponds that every company shall have a Board of Directors with minimum and maximum number of directors prescribes on Board. Prescribed class or classes of companies shall have atleast one women director. The sec. also seeks to provide that every company shall have at least one director who stays in India for a total period of not less than 182 days in the previous calendar year. It enforced all listed companies to appoint Independent Directors at least one-third of the size of Board. Independent Directors shall hold office upto two consecutive terms. One term is upto five consecutive years. It also enforces that Nominee Director appointed by any institution, or in pursuance of any agreement, or appointed by any Government to represent its shareholding shall not be deemed to be an Independent Director. The Sec. further provides for the provisions of rotation of independent director. Further the provision of retirement of directors by rotation shall not be applicable to appointment of Independent Directors. The Sec. also provides that an Independent Director or a Non-executive Director who is not a promoter or key managerial personnel shall be held liable for acts of omission or commission by a company, which has occurred by his knowledge.

2.14.5 Duties of Director (Sec. 166)

Duties of Director have been defined under this Sec., which provide that a director of a company shall act in accordance with the company's articles. In case of contravention, director is punishable with fine and if a director is found guilty of making any undue gain either to himself or to his relatives, partners or associates, he shall also be liable to pay an amount, equal to that gain, to the company. The duties of Director have been defined and include the following:

- To act in accordance with the articles of the company.
- To act in good faith in order to promote the objects of the company
- To exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
- Not to involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.
- Not to achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates
- Not to assign his office and any assignment so made shall be void.

2.14.6 Code for Independent Directors (Schedule IV)

Considering the importance of Independent Directors, the Companies Act has a special mention on 'Code for Independent Directors' under its Schedule-IV. This schedule ensure adherence to various standards required to be comply by the Independent Directors. Focusing on detailed guidelines and deliberations for the professional conduct, role, functions and duties, code emphasises on the appointment, re-appointment process, removal and resignation procedure. Under this code separate meetings of Independent Directors and their evaluation mechanism has a scope to strengthen and bring transparency in the Board affair.

2.14.7 Structure of Audit Committee and Its Function (Sec. 177)

It provides the requirement and manner of constitution of audit committee. The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority and majority of members must have ability to read and understand financial statements. The further provides the functions of audit committee. The Sec. also provides for the establishment of vigil mechanism in every listed and prescribed class of companies.

2.14.8 Prohibition on Insider Trading of Securities (Sec. 195)

This Sec. prohibits directors or key managerial person of the company to deal in securities of a company, or counsel, procure or communicate, directly or indirectly, about any non-public price-sensitive information to any person. This Sec. also have a penalty provision with imprisonment for a term upto five years or with fine upto five lakh rupees extendable to 25 crore rupees or three times the amount of profits made out of insider trading, whichever is higher, or with both.

2.14.9 Appointment of Key Managerial Personnel (KMP) (Sec. 203)

Under this Sec., it is required for every company belonging to such class or description of companies, as prescribed by the Central Government, shall have managing director, or chief executive officer or manager and in their absence, a whole time director and a Company Secretary, as whole-time key managerial personnel. It is also specified under this Sec. that a whole-time key managerial personnel shall not hold office in more than one company (expect in a subsidiary at the same time except that of a director if company permits him in this regard. This Sec. further provides for punishment in case of contravention. Sec. 203 also has provision that Company Secretary will be appointed by a resolution of the Board, which shall contain the terms and conditions of appointment including the remuneration. If any vacancy in the office of KMP is created, the same shall be filled up by the Board at a meeting of the Board within a period of six months failing which, heavy penalty is imposed.

2.14.10 Secretarial Audit for Bigger Companies (Sec. 204)

Under this Sec., every listed company and companies belonging to prescribed class or classes of companies shall annex a secretarial audit report given by a Company Secretary in practice with its Board's report. The Board in its report shall explain any qualifications or other remarks made by the Company Secretary in practice. The Sec. further provides penalty for the company or any officer of the company or the Company Secretary in practice.

2.14.11 Defined Functions of Company Secretary (Sec. 205)

This Sec. specifies the functions of Company Secretary. The functions are inclusive in nature and inter alia provides for ensuring compliance with the applicable secretarial standards. The Sec. further provides that specified functions shall not affect the duties and functions of Board of Directors, Chairperson, Managing Director or Whole-time Director. Functions of the Company Secretary include, reporting the Board about compliances, to ensure that the company complies with the applicable secretarial standards and to discharge such other duties as may be prescribed.

2.14.12 Establishment of Serious Fraud Investigation Office (Sec. 211 and 212)

These Sections empowers the Central Government to constitute Serious Fraud Investigation Office (SFIO), which will be headed by a director (not below the rank of Joint Secretary) and will consist of experts from various disciplines. It provides statutory status to SFIO enabling it to

investigate into such cases of companies involved in frauds as may be assigned to it by Central Government.

2.15 SEBI GUIDELINES, 2014

After the enactment of the Companies Act, 2013, the rules pertaining to Corporate Governance were notified on March 27, 2014. The requirements under the Companies Act, 2013 and the rules notified there under would be applicable for every company or a class of companies (both listed and unlisted) as may be provided therein. Accordingly SEBI issued a revised circular on April, 17 2014 with the provisions of the Listing Agreement with an objective to align with the provisions of the Companies Act, 2013, adopt best practices on corporate governance and to make the corporate governance framework more effective.

2.16 SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

SEBI (LODR), 2015 regulation was notified on September 02, 2015 and has been amended 5 times applied special provision for the listed entities that are listed on any of the designated securities on recognized stock exchanges. The regulation has set of principles which govern the disclosures and obligations for the listed entities. LODR has a close reference to comply with the corporate governance provisions including rights of shareholders, timely information to shareholders, equitable treatment of all shareholders, recognising the rights of stakeholders and encourage cooperation between listed entity and the stakeholders. It also focuses on ensuring timely and accurate disclosure of material facts such as financial position, ownership, performance and governance.

Chapter – IV, which is the soul for effective corporate governance of listed entity, has stringent regulations, which prominently addresses related party transactions, vigil mechanism, board structure, Audit Committee, Nomination and remuneration committee, Stakeholders Relationship Committee, Risk Management Committee along with their composition and crucial provisions. It also emphasizes on the regulatory obligations with respect to independent directors and the corporate governance requirements with respect to subsidiary of listed entity. Some of the Key highlights of LODR with special focus on corporate governance aspects are discussed below.

2.16.1 Board Composition

An optimum combination of executive and non-executive directors is required with at least one woman director in board and majority of directors need to be from Non-Executive (i.e., 50% or more). In case the Chairman of the board is a Non-executive director then at least 33% of the board of directors shall comprise of Independent Directors. On the other hand when the Chairman is not a regular Non-executive Director, then at least 50% of the board of directors shall comprise of Independent Directors. Although in cases where the regular Non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, then at least 50% of the board of directors of the listed entity shall consist of Independent Directors. This further abides the Board to meet at least 4 times in a year, with a maximum time gap of 120 days between any two meetings.

2.16.2 Audit Committee

The Audit Committee is powerful committee on the roadmap of effective corporate governance, hence its composition, functioning play crucial role. Under LODR regulations listed entity are required to have minimum 3 directors as members of the committee, which should have majority of Independent Directors on its board (i.e. more than 67%) and having sound finance knowledge. At least one of the members must have expertise in accounting or related financial management area. The chairperson of the audit committee must be an Independent Director. The committee must meet at least 4 times in a year and more than 120 days shall not elapse between two meetings.

2.16.3 Nomination and Remuneration Committee

Another important committee of the board must comprise of at least 3 Non-Executive directors, whereas, minimum 50% of them must be Independent Directors. The Chairperson also need to be drawn from the Independent Directors, which further provided that the chairperson of the listed entity, whether executive or non-executive, may be appointed as a member of the Nomination and Remuneration Committee and shall not chair such Committee.

CHAPTER - 3: CORPORATE GOVERNANCE IN BANKS

3.1 CORPORATE GOVERNANCE IN BANKING SECTOR

It is evident that banking and financial institutions are the strong backbone of any economy. This results in healthy economic condition of a country, which positively correlates with sound functioning of its banking sector. Functioning of banking and financial institutions differs with other corporate entities in many ways that makes corporate governance of banksvery different and critical too. So, if a corporate fails on corporate governance front, the fall outs can be restricted to the stakeholders, but on the other hand, if a banking or financial institution fails, the impact can spread rapidly through other banks and financial institutions, which ultimately have serious implicationon financial system at large. Thus, corporate governance has equal importance in case of banks and financial institutions as well. In Indian market, the concept of corporate governance is emphasized considering the liberalization, privatization and globalization phase, whereby institutionalization of financial markets, foreign institutional investors (FIIs) became dominant players in the stock markets. This phase also left private sector companies with a realization that 'investors keep invested in those corporate, which create values for their investors'. Thus, in this way, corporate essentially requires to adhere with the honest, fair and transparent corporate procedures and practices.

3.2 EVOLUTION OF CORPORATE GOVERNANCE IN INDIAN BANKING SYSTEM

Considering the changing role of corporate governance, various advisory groups and consultative groups were formed to deeply study baking sector in the light of effective corporate governance. To name a few, an advisory group on corporate governancewas formed under the chairmanship of Dr. R. H. Patil, in March 2001.Subsequently, another consultative group was formed in November 2001 under the Chairmanship of Dr. A.S. Ganguly, with an objective to strengthen the internal supervisory role of the Boards in banks. In continuation, an advisory group on banking supervision was initiated under the Chairmanship of Shri M.S.Verma. Despite recommendations of these advisory groups and considering the global corporate governance experience, RBI had undertaken several measures to strengthen the corporate governance in the Indian banking sector. Various areas, which were potentially important and needed attention, were emphasized. It included defined role of supervisors, ensuring an environment supportive to the sound corporate governance, effective organizational structure to have responsible board of directors, etc. Considering the fact that Indian banking sector is dominated by the government-managed banks (including public sector banks, nationalized banks and rural banks, etc.), these issues were further examined. In this phenomenon, corporate governance issue was important for public sector banks, especially because they constitute major share of business in the banking sector. *(See Figure 3.1 below for the Structure of Indian Banking System).*

The Reserve Bank of India (RBI) enacted in 1934 and the Securities and Exchange Board of India (SEBI) established in 1992 are two important statutory bodies empowered to regulate and maintain the standard required for the effective corporate governance. Another global initiative in 1999 of the Basel Committee also brought important principles on corporate governance for banks. Additionally, Banking Regulation Act, 1949, Foreign Exchange Management Act (FEMA), 1999, Payment and Settlement Systems Act, 2007, New Companies Act, 2013 and

other directives/ regulations/ guidelines/ instructions issued by RBI and SEBI from time to time have created a positive environment and future scope for enhancing corporate governance. This evolution phase of corporate governance and banking industry experiencescreated long way of development and setting global standards for corporate governance, which make it more robust and sophisticated in today's time frame.

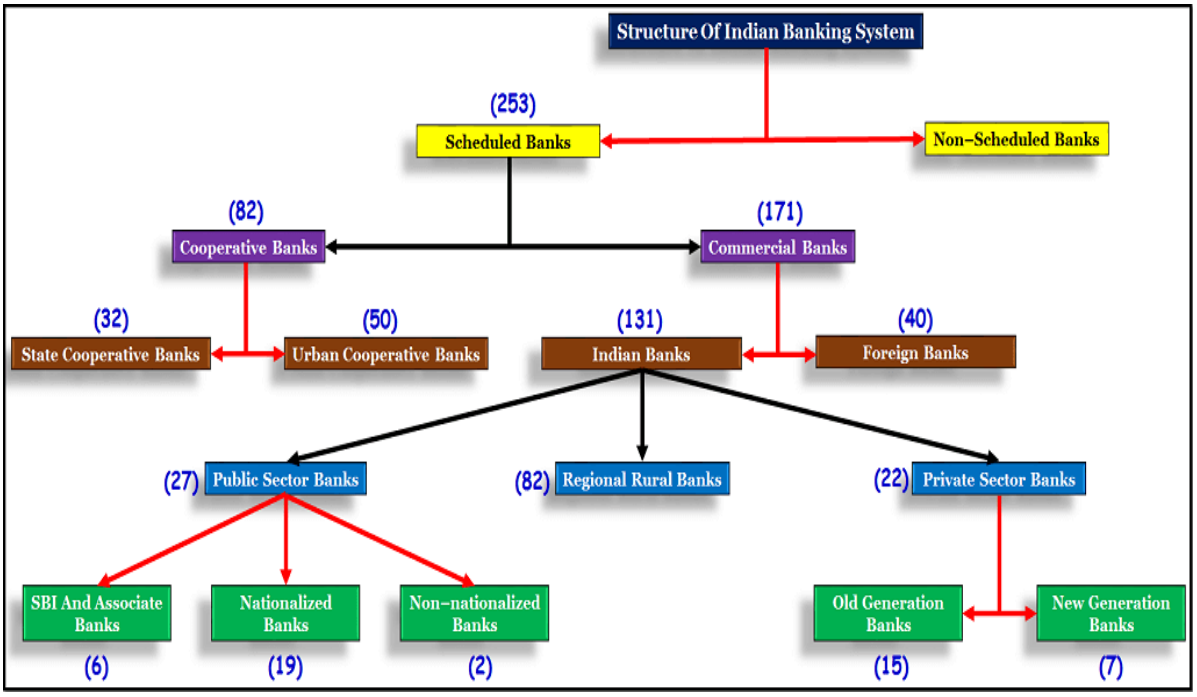


Figure-3.1: Structure of Indian Banking System

3.3 NEED OF EFFECTIVE GOVERNANCE IN BANKS

There are various parameters, which refer the crucial need of corporate governance in banking sector. It cannot be denied that banking sector plays important role of managing funds and its circulation. They have access to capital market as well to maintain the statutory requirement of having sound capital adequacy ratio (CAR). This way they also have open-ended investors from the capital market as well as major shareholders. Investors believe that a bank with good governance will provide them a safe place for investment and also give better returns. Therefore, good corporate governance is important factor in retaining existing investors and attracting new investors. Another aspect of greater transparency and fairness motivate its investors, customers, employees and vendors to maintaining long-term relationship with the bank. Important practices in good corporate governance such as assessment of credit risks pertaining to lending process has an encouragement for the corporate sector, as in turn it will improve their internal corporate governance practices and standards, which is conditioned by the global tendency to consolidation in the banking sector. Another aspect of corporate governance need in the banking is influenced by the fact that boards of directors and senior management govern the business and affairs of individual banks, and at any point of time, any imbalance within the effective corporate governance framework will led to corporate failure. In the light of above, the need of corporate governance in banking sector is essentially required in order:

- to establish a capable, effective and reliable board of directors and their composition
- to have an effective and operating audit committee, compensation committee and nominating/ corporate governance committee
- to establish corporate governance procedures in order to enhance shareholder's value
- to establish a corporate code of ethics
- to disclose the information in an transparent manner

3.4 RBI'S ROLE IN ENSURING CORPORATE GOVERNANCE IN BANKS

RBI, being the central bank and banking sector regulator in India has major role in formulating, implementing and promoting the standards of corporate governance for India's banking sector. Originally, RBI had task to regulate issue of currency, maintaining forex reserve, financing five-year plan, establishing specialized institutions to promote saving and to fulfill needs of priority sector. Afterwards post librelisation phase, it also started focusing on facilitation of efficient functioning of capital and money market, fixing interest rates, providing necessary operational framework to banks for setting various transparency and disclosures norms. It also focuses on safeguarding and maximizing the shareholder's value and stabilizing the financial system. Apart from main functions of RBI, it also has supervisory and regulatory powers for public sector banks, private sector banks, regional rural banks, foreign banks, non-banking financing companies (NBFC), Small Industries Development Bank of India (SIDBI), cooperative banks and various institutions formed under special acts (including SBI Act, IDBI Act, Industrial Finance Corporation, NABARD Act, Deposit Insurance and Credit Guarantee Corporation Act and National Housing Bank Act).

RBI also follows the important functions guided by the Board of Financial Supervision (BFS), which inspects and monitor the banks through its CAMELS approach (capital adequacy, asset quality, management, earnings, liquidity, and systems & control). Here primary objective of BFS is to undertake consolidated supervision of the financial sector. It also look after the Department of banking Supervision, Department of Non Banking Supervision and the Financial Institution Division, in terms of issuing necessary directions for important regulatory matters. Within the supervision and regulatory powers, RBI has description over bank licensing, asset liquidity, branch expansion and methods of amalgamation and liquidation, etc., which further empower RBI to play leading role of formulating and implementation of effective corporate governance mechanism for the institutions within banking sector.

RBI follows three important parameters in maintaining and managing effective corporate governance, namely, prompt disclosure and transparency norms, off-site surveillance and timely appropriate corrective action. These parameters and their sequencing are pictorially presented below in *Figure 3.2*.

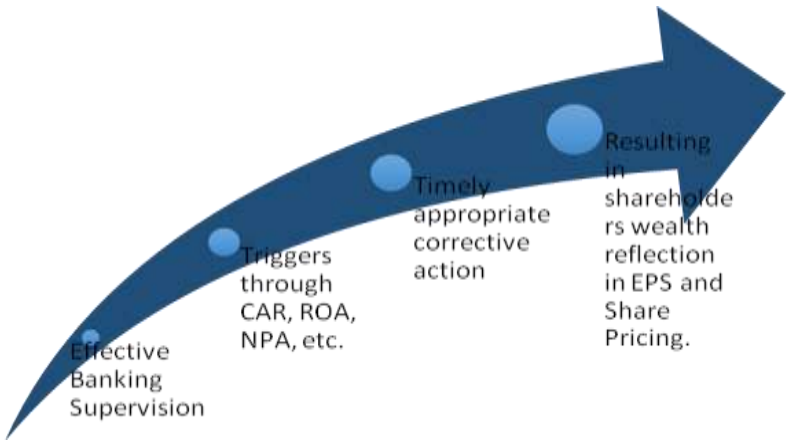


Figure - 3.2: RBI's Key Parameters for Maintaining Corporate Governance

3.5 IMPORTANT COMMITTEES OF BOARD

Most of the guidelines are based on SEBI guidelines, New Companies Act 2013, Norms set by the RBI or by the Ministry of Corporate Affair. Some of the important guidelines are referred below:

3.5.1 Board Composition

Some of the important regulatory provisions framed by RBI for banks already discussed above. Additionally, NBFC, listed banks and other financial intermediaries come under the ambit of SEBI. In effective corporate governance, it is encouraged to have higher the number of non-executive director or independent director over the executive director. As per SEBI (LODR) Regulations 2015, an optimum combination of executive and non-executive directors is required with at least one woman director in board and majority of directors need to be from Non-Executive (i.e., 50% or more). In case the Chairman of the board is a Non-executive director then at least 33% of the board of directors shall comprise of Independent Directors. On the other hand when the Chairman is not a regular Non-executive Director, then at least 50% of the board of directors shall comprise of Independent Directors. Although in cases where the regular Non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, then at least 50% of the board of directors of the listed entity shall consist of Independent Directors.

3.5.2 An Audit Committee

As per the Sec. 177 of New Companies Act 2013, every listed company is required to constitute an Audit Committee comprising minimum 3 Directors, with Independent Directors in majority. An audit committee is one of the important board committee to oversee financial reporting process and disclosure. It ensures the correct, sufficient and credible financial statement of the company. Committee needs to meet at least four times in a year.

3.5.3 The Remuneration and Nomination Committee

The Committee should consists more than 2 Non-Executive Directors, and include minimum 50%, as the Independent Directors in the composition. It can have chairperson of the company

(whether executive or non-executive) as the member of the Committee, but cannot become the Chairman of such Committee. The Remuneration Committee has prime function to identify persons who are qualified to become directors and can be appointed in senior management in accordance with the pre defined criteria. This committee formulates the criteria for determining qualifications, positive attributes and independence of a director and also empowered to authorize the remuneration, business and other benefits to directors, key managerial personnel and other employees.

3.5.4 Risk Management Committee

It is another important committee, with an objective to assist the Board in fulfilling its corporate governance oversight responsibilities with regard to the identification, evaluation and mitigation of strategic, operational, and external risks.

3.5.5 Stakeholders Relationship Committee

Role of the Stakeholders Relationship Committee (Earlier referred as the Shareholders'/ Investors' Grievance and Administrative Committee) is very important in terms of approving, transferring and transmission of shares, *etc*. It also reviews the queries/complaints received from the shareholders.

3.5.6 Corporate Social Responsibility Committee

In order to have company's contribution to the social sector development, CSR has been mandatory for companies, which have net worth of Rs. 500 crore or more, or turnover of Rs.1000 crore or more or a net profit of Rs.5 crore or more during any financial year. Such companies need to have CSR Committee of the board, which can articulate the scope of CSR activities, by ensuring compliance with the CSR policy of the banks in accordance to the Companies Act 2013. Key functions of the committee include review of CSR initiatives, formulation of CSR policy, monitoring the CSR activities, implementation of and compliance with the CSR Policy and reviewing and implementing.

3.6 IMPORTANT GUIDELINES OF RBI ON CORPORATE GOVERNANCE

RBI issues important guidelines from time to time to the banks, NBFC and other financial institutions, which comes under its supervisory control. Some of the key guidelines are discussed below:

3.6.1 Guidelines for Licensing of 'Payments Banks'

The RBI through its recent guideline dated November 27, 2014for Licensing of Payments Banks, emphasized that the Board of the banks should have a majority of independent Directors as well as banks are required to comply with the corporate governance guidelines issued from time to time by the RBI, SEBI, etc.

3.6.1 Corporate Governance Directions for Non-Banking Financial Companies (NBFC's)

RBI *vide* its Master Circular no. RBI/2015-16/12 DNBR (PD) CC.No.053/03.10.119/2015-16 dated July 1, 2015 directed the NBFCs to frame internal guidelines on corporate governance which is to be approved by its Board of Directors. Through this circular, NFC's are required to have three Board committees on mandatory basis including, Audit Committee, Nomination Committee and Risk Management Committee.

3.6.3 Fit & Proper Criteria for Directors

NBFC's are required to have in place a Board approved policy on 'Fit and Proper Criteria for Directors'.Through which, company obtains necessary disclosures from Directors from time to time. The companies are required to ensure in furnishing to the RBI, statement on change of directors and a certificate confirming that fit and proper criteria in selection of the directors has been followed.

3.7 BASEL COMMITTEE ON CORPORATE GOVERNANCE PRINCIPLES FOR BANKS

The Basel Committee on banking supervision was setup in 1975 by the Central Bank Governors of the G10 developed countries. It is empowered as the banking supervisory authority. Since its inception, it has introduced the Basel Capital Accord in, the New Basel Capital Accord in 2003. BIS (2015) havecome out with guidelines on corporate governance principles for banks with an objective of promoting the adoption of sound corporate governance practices by banks in worldwide. It has given 13 principles of corporate governance for banks, which are shown in *Figure 3.3* below.

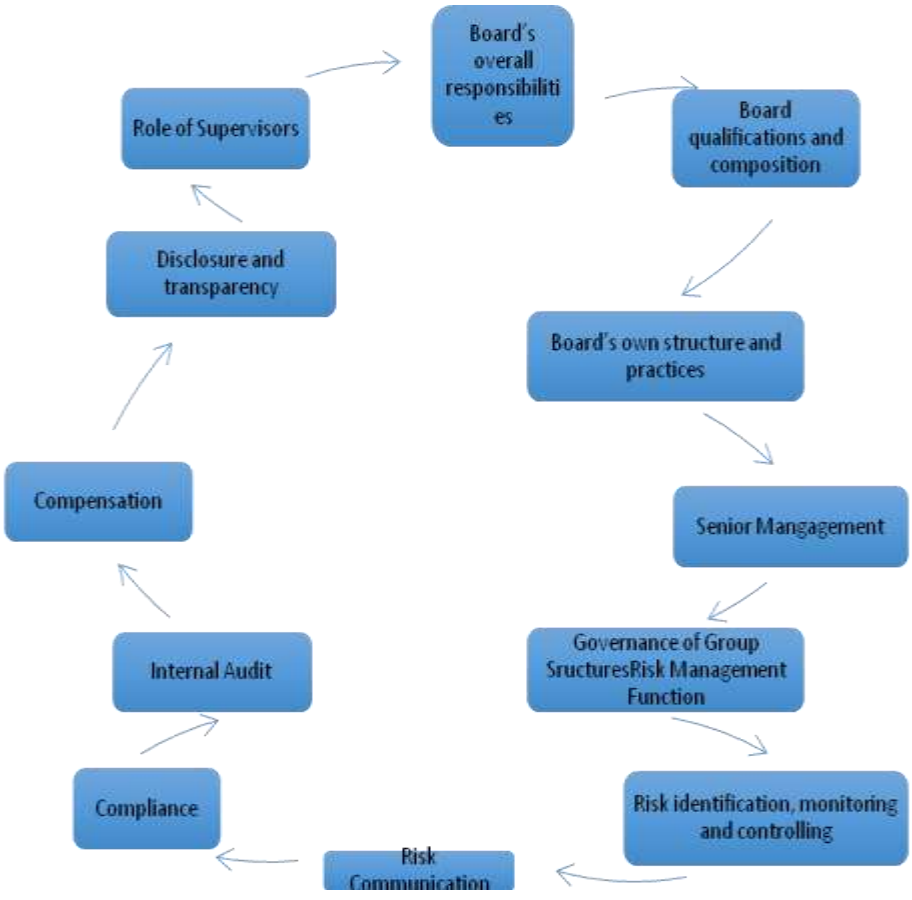


Figure-3.3: Corporate Governance Principles for Banks

CHAPTER 4: REVIEW OF LITERATURE AND RESEARCH METHODOLOGY

4.1 REVIEW OF LITERATURE

Several researches have been conducted to analyse the different aspects of corporate governance. But there are very few research and literature available on the subject related to corporate governance practices in banking and financial sector companies in India. The available literature and researches related to the present study are divided into CG practices in financial institutions; Board size and firm performance; Independent Director and Firm performance; and Board diversity. Important literature available in this context is being referred below:

4.1.1 Corporate Governance Practice in Financial Institutions

Adnan *et al.* (2011) investigated the impact of corporate governance on efficiency of Malaysian listed banks, using a panel data analysis. In their study prime variables were board leadership structure, board composition, board size, director ownership, institutional ownership and block ownership. Findings of the study showed that smaller board size and higher percentage of block ownership lead to better efficiency of Malaysian banks. Mang' Unyi (2011) also examined empirically the ownership structure, corporate governance and its effects on performance of firms in Kenya with reference to banks. Pandya (2011) opines that there is a significant relationship between governance structures and firm performance. The author studies the effect of corporate governance structures, particularly board independence and CEO duality, on the performance of selected Indian banks measured by ROA and ROE.

Al-Musalli *et al.* (2012) studied the determinants of intellectual capital performance of listed banks in Arab Gulf Cooperation Council (GCC) countries by inspecting the impact of various corporate governance variables on intellectual capital performance.Emmanuel *et al.* (2012) analysed the corporate governance impact on the bank performance by taking the sample of the Nigerian bank and found that the size of the board of directors and the number of the shareholders had positive impact on the return on equity and return on the assets. Similarly, Mohammed (2012) studied the impact of corporate governance on the performance of banks in Nigeria.

Gowd *et al.* (2013) attempted to study the corporate governance practices of SBI and examine the relationship between market valuation and operating performance with corporate governance score of SBI. The data analyzed using correlation analysis, multiple regression and t-test reveals that sales, market value, dividend policy and PAT (Profits) of SBI are positively correlated. The sales and corporate governance of SBI have significant positive correlation. The impact of corporate governance on market value, PAT and DPR is not statistically significant. Hence they concluded for SBI to enhance its sales revenue, profits after taxes and market capitalization and maintain optimum dividend policy for maximizing the corporate excellence, which ultimately enhance the corporate governance.

Hoque *et al.* (2013) empirically investigated the influence of corporate governance mechanisms on financial performance of 25 listed banking companies in Bangladesh during 2003-2011. Under the study, it was found that the general public ownership is positively and significantly associated with ROA and ROE and concluded that presence of independent directors have a significant positive effect on bank performance. Similarly, another study by Thomas *et al.* (2014)

investigated the impact of corporate governance on performance of listed Indian banks by using a panel data analysis. The Generalized Linear Model technique was applied on 10 listed Indian banks during 2010 to 2012. The research findings stated that a smaller board size, higher proportion of independent directors and a higher percentage of public ownership lead to better performance of Indian banks.

4.1.2 Board Size and Firm Performance

Several studies examine the relationship between board size and firm performance (such as Tobin's Q, ROA or ROE) and risk-taking for financial firms. Andres and Vallelado (2008) used data for 69 banks from 6 countries and concluded a hump-shaped relationship between board size and board independence on the one hand and performance on the other.Faleye and Krishnan (2010) employ three measures of bank risk taking in lending decisions, namely the borrower's long-term S&P credit rating, the inclusion of financial covenants in loan contracts, and the bank's decision to diversify its lending risk through syndication. Their sample included 317 banks. They find that banks with smaller boards provide fewer junk loans and are less likely to underwrite speculative loans. The inclusion of financial covenants is not related to board size.

Hardwick *et al.* (2011) test for a non-linear relationship but find no support for it, while Grove *et al.* (2011) find some evidence for an inverted U-shaped relationship between ROA and board size.Another research by Upadhyay and Sriram (2011), revealed that a larger board has greater resources than a smaller board to monitor managerial performance. So directors would deliberate important corporate decisions more extensively and would demand that the managers disclose important issues to the stakeholders, leading to greater information transparency.

Adams and Mehran (2012) examined the relationship between board size, board composition and performance, where the later is proxied by Tobin's Q. Researcher found that the natural logarithm of board size is, on average, positively related to Tobin's Q in their sample. They argue that increases in board size are not generally value enhancing, as firm complexity increases, but that increases in board size due to additions of directors who also sit on subsidiary boards appear to be important. Aebi *et al.* (2012) revealed that board size is positively related to their indicators of 372 US banks' performance (i.e., buy-and-hold returns and ROE) measured over the time period July 1, 2007, to December 31, 2008. Similarly, Beltratti and Stulz (2012) investigated the relationship between corporate governance and bank performance during the credit crisis (July 2007 – December 2008) in an international sample of 164 large banks (having assets over $50 billion). They use data on board attributes collected by Institutional Shareholder Services (ISS), such as size, independence, composition of committees, and transparency, to construct an index for shareholder-friendly boards in 2006.

4.1.3 Independent Directors and Firm Performance

A widely researched question is whether independent board members (i.e., directors who do not have direct financial, family or interlock ties with management) affect firm performance. The evidence on the relationship between board independence and financial firm performance does not provide much support that board independence is positively related toperformance.For instance, Minton *et al.* (2010), Fernandes and Fich (2009), and Adams and Mehran (2012) do not find a positive association between board independence and firm performance, while Aebi *et al.* (2012) found that the coefficient of the percentage of independent outside directors on the board of directors is even negative, although it is only significant in some regressions. An exception is

the study by Cornett *et al.* (2010) who investigated the relationship between several corporate governance mechanisms and bank performance during crisis phase in a sample of approximately 300 publicly traded US banks. They showed that a more independent board is positively related to banks' performance during the crisis, while Andres and Vallelado (2008) report a hump-shaped relationship between board independence and performance.

Studies using international samples of banks report similar findings as most studies using US data. For instance, Erkens *et al.* (2012) investigated the relationship between corporate governance and performance of financial firms during 2007-2008, using an international sample of 296 financial firms from 30 countries. In line with the findings of Beltratti and Stulz (2012), these authors reported that firms with more independent boards experienced worse stock returns during the crisis. This is not caused by more risk-taking, as board independence is not related to expected default frequency and stock return volatility.

Yeh *et al*. (2011) examined whether the performance during the recent financial crisis is better for financial institutions with more independent directors on their board committees.Using data of financial institutions from the G8 countries, their result suggested that independence in auditing and risk committees helps improve crisis performance. This effect is particularly significant for civil law countries, which are characterized by poor shareholder protection practices. In addition, these authors found that committees independence is related to better performance for those financial institutions having more excessive risk-taking behaviors.

4.1.4 Board Diversity

Several countries promote board diversity. There are many studies on the relationship between diversity(various types of) and performance. If anything, the effect of diversity is complex and depends on context. On the basis of a meta-analysis, Webber and Donahue (2001) found no support for a relationship between various types of diversity and group cohesion or board performance. Likewise, Mathieu *et al.* (2008) conclude that most studies suggest that diversity—along various dimensions—is not positively related to board performance.

Several studies focus on gender diversity, examining whether a stronger presence of women in the board affect board effectiveness and firm performance. A good example is the study by Nielsen and Huse (2010). The literature on gender-based differences asserts that woman and man are different in their leadership behaviour. Characteristics, which are ascribed more strongly to man than woman include being assertive, ambitious, aggressive, independent, self-confident, daring, and competitive. Characteristics, which are more strongly ascribed to woman than man include concern with the welfare of other people and being affectionate, helpful, kind, sympathetic, interpersonally sensitive, nurturing, and gentle. These differences may affect board functioning. For instance, boardswith female members may have more lively discussions about the decisions to be made by the board and fewer conflicts.

Nielsen and Huse (2010) argue that the impact of female board members depends on the nature of the tasks performed.The ratio of female directors has a positive direct relationship with board strategic control but no direct relationship with board operational control in their research among Norwegian firms. They also found that boards with high ratios of woman are more likely to use board development activities and are less likely to have conflicts. Adams and Ferreira (2009) found that gender diversity has beneficial effects in companies with weak shareholder rights, but detrimental effects in companies with strong shareholder rights. The studies referred above do

not specifically focus on financial firms. The only study that focusing on the impact of gender diversity on financial performance is Muller-Kahle and Lewellyn (2011), who found that firms with more gender-diverse boards were less involved in sub-prime lending.

4.2 OBJECTIVES OF THE STUDY

The objectives of the study are to:

1. To analyse the CG practices in Indian FIs.
2. To construct CG index for Indian FIs.
3. To analyse the corelation between:
    a. the financial performance of FIs with the CG index.
    b. performance and board size.
    c. performance and proportion of independent directors on the board of directors.
    d. performance of FIs and the size of the audit committee.
    e. performance of FIs and proportion of woman member in the board of directors.
4. To analyse the variance in CG index pre and post implementaion of ammendemends in the Comapnies Act, 2013 and SEBI (LODR) Guidelines, 2015.

4.3 RESEARCH METHODOLOGY

In order to assess the impact of CG on the performance of FIs we have undertaken the following processes:

1. Analysis of the structural dynamics of the board attributes which are the main drivers of CG practices;
2. Construction of an index to measure CG practices as envisaged in the Companies Act, 2013 and SEBI (LODR) Guidelines, 2015. based on the fact that the main driver of CG;
3. Assessment of impact of CG on financial performance of the FIs.

4.3.1 Sample Selection

In the present study we have selected twenty four sample FIs consisting of sixteen banks.. In India the banking sector comprises of private sector banks, public sector banks, foreign banks and cooperative banks. In this study, we have chosen eight public sector banks and eight private sector banks. *Table-4.1* shows the sample FIs and their market capitalization. The basic criteria for selecting the banks were:

1. Listed on the stock exchange;
2. Highest and lowest market capitalization in the list of top ten FIs in particular category like public sector banks, private sector banks.

Table 4.1: Sample of the Study

Category	Bank Name	Market Capitalization (in million) as on 31st March, 2012
Public Sector Banks	State Bank of India (SBI)	1521919
	Punjab National Bank (PNB)	336636
	Bank of Baroda (BoB)	336502
	Central Bank of India (CBI)	73758
	Dena Bank (DB)	28530
	United Bank of India (UBI)	28357
	Punjab and Sindh Bank (PSB)	27325
	State Bank of Mysore (SBM)	23573
Private Sector Banks	HDFC Bank Ltd. (HDFC)	1134625
	ICICI Bank Ltd. (ICICI)	1025805
	Axis Bank (AB)	491915
	Kotak Mahindra Bank Ltd. (KMBL)	365901
	Karnataka Bank Ltd. (KB)	18546
	DCB Bank Ltd. (DCB)	11672
	Lakhsmi Vilas Bank Ltd. (LVBL)	8367
	Dhanlaxmi Bank Ltd. (DB)	7310

4.3.2 Data Sources

For the purpose of this study, majorly data were collected from the annual reports of the respective FIs, websites of NSE, BSE and RBI from its database on Indian banks. The timeframe of analysis was from FY 2011-12 to 2015-16.

4.3.3 Data Analysis Tools

We have used the ordinary least squared model (OLS) to examine the correlation between CG and bank performance. Apart from OLS we have used correlation matrix, t-statics and f-statistics for analysis purpose. We have used ANOVA in order to find the variance in CG practices among various sub-samples.

4.4 CONSTRUCTION OF CORPORATE GOVERNANCE INDEX

There is a wide perceptional difference among different stakeholders about CG. Some of the practioners define CG in a very formal way, where the management is primarily accountable only to the shareholders, whereas others draw a wide boundary encompassing entire society to whom the management is accountable. CG deals with the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny, 1997). Similarly, the CII report on CG puts forward the argument "CG deals with laws, procedure, practices and implicit rules that determine a company's ability to take managerial decisions vis-a vis its claimants in particular its shareholders, creditors. There is a global consensus about the objectives of good CG maximizing shareholders' value".

The CG process consists of large number of variables (both external and internal), which needs to be processed to measure and analyse the state of CG in any company.

Construction CG index is subject to methodological shortcomings and individual biases. In order to overcome individual biases, we have taken all the scores from published annual reports of

these companies and scoring was done on the basis of the information available in the annual reports. The annual reports are the primary source of information for all the stakeholders in contrast to the ratings done by the commercial agencies. There is great amount of information asymmetry between commercial rating agencies and the general stakeholder.

To construct the various sub-indices, we have taken take the attribute associated with a specified governance mechanism and score each attribute on the requirements of clause 49 of the listing agreements and the provisions of the Companies Act, 2013. Each of the indicators used in this index construction is quantified depending upon the mandatory requirements. Some of the indicators which are non mandatory in nature but are important CG mechanism are also included in the index construction.

One of the most important CG mechanisms is the functioning of the board which is reflected by its structure (diversity, proportion of independent directors, executive/non- executive chairman) size, frequency of meetings, training of independent directors and related governance mechanisms.

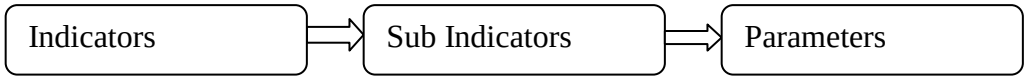
In complex business environments, the board may require inputs for specialized and technical decision making. In view of this the Companies Act, 2013 stipulates certain mandatory and non mandatory board committees left at the discretion of the board. A board committee is a small working group identified by the board, consisting of board members, for the purpose of supporting the board's work. Committees are usually formed as a means of improving board effectiveness and efficiency. The applicability, constitution and functions are different for different committees.

It is generally perceived that the operations of the FIs are opaque in nature. Simultaneously, failure of any one of the FIs can have a disastrous cascading effect on the whole of the financial system through counter party default. The capital requirements of the FIs are quite huge and supplied by various stakeholders. In order to reduce information asymmetry among managers and stakeholders, disclosures plays an important role to reflect the underlined health of the FIs.

Similarly, due to the inherent risk involved in operations of FIs these are heavily regulated by various agencies. The snapshot of compliance requirements and adherence to regulations provide confidence to the various stakeholders and suppliers of capital. Disclosure about mandatory and non mandatory compliance may reduce the cost of funds for FIs.

In order to analyse the state of CG in the sample FIs, an index is constructed using important measurable CG mechanisms under three broad indicators (*Table 4.2*) namely *Board, Committees of the board and Disclosure requirements.*

Under each of these indicators, we have identified number of sub -indicators (total fifteen). The sub indicators are quantified using parameters which exist as essential CG stipulations.



Basing on the various studies 60 % of the weightage in the index is assigned to the indicators pertaining to a. Board and b. Board committees. Rest 40% is assigned to c. Disclosures and compliance as both of these lead to transparency and reduced information asymmetry for diffuse

shareholders and debt-holders, which is as considered as the cornerstone for sound CG practice.

Table 4.2: Indicators of CG Index Construction

Indicator	Sub indicator	Parameter
Board	Board of directors	• Proportion of ID • Women director • Board meeting frequency • Limit of number of directorship • Separate meeting of ID • Training of ID • CG philosophy • Code of Conduct • Whistle blower policy
Board Committees	1. Audit Committee 2. Nomination Committee 3. Remuneration Committee 4. Risk Management Committee 5. Shareholder's Relationship Committee 6 Monitoring of large value frauds 7. Customer Service Committee 8. IT Strategy Committee 9. Management Committee of the Board 10. CSR committee 11. Recovery and Identification of willful defaulters/ non cooperative borrowers 12. Investment committee 13. Allotment committee 14. Management committee 15. Bond issue committee 16. Asset Liability Management Committee	• Applicability • Composition • Function
Disclosures and Compliance	1. Disclosures 2. Report on CG 3. Compliance certificate	• Disclosure in annual report

4.5 PERFORMANCE INDICATORS

In order to assess the impact of CG on financial performance, we have identified several indicators (*Table 4.3*) which have a bearing on the overall financial performance of FIs.

Table 4.3: Performance Indicators

Sl. No.	Indicators	Description
1.	Credit + Investment/Deposit Ratio	Credit deposit ratio + Investment deposit ratio
2.	Deposit/Total Liabilities	Deposits*100/total liabilities
3.	Net Interest Margin	(Interest earned-Interest expended)*100/Avg of total assets for current and previous year
4.	Ratio of Intermediation cost to total assets	Interest earned-Interest expended)*100/Avg of total assets for current and previous year
5.	Cost of deposits	100*Interest on deposits/Avg Deposits for current and previous year
6.	Cost of borrowings	(Interest expended-Interest on deposits)*100/avg borrowings for current and previous year
7.	Cost of funds	100*Interest expended/Avg Deposits and borrowings for current and previous year
8.	Return on advances adjusted to cost of funds	100*(Interest/Discount on advances/bills)/average advances for current and previous year
9.	Return on investment adjusted to cost of funds	Return on advances-Cost of Funds
11.	Size	Total of assets
12.	Asset Growth	
13.	Volatility in Stock Prices	Standard Deviation of stock prices*100/Avg stock price
14.	Investment Returns	(Price at the end of the fy- Price at the beginning of the fy) +dividend/ Price at the beginning of the fy
15.	Return on Equity	100*(Net profit for the year)/Avg (Capital +Reserves and Surplus) for current and previous year
16.	Return on Assets	100*(Net profit for the year)/Avg (Assets) for current and previous year
18.	Ratio of non interest incomes to total assets	100*Other income/Avg of total assets for current and previous year
19.	Ratio of operating profit to total assets	100*(intrest earned + other income-interest expended-operating expenses)/Avg of total assets for current and previous year
20	Price to earning ratio	Stock price/earning per share
20	Corporate Governance Index	Calculated from information available in annual accounts

In order to examine the role of CG in the performance of FIs, we have considered the indicators as dependent and independent variables as presented in the *Table 4.4*.

Table 4.4: Variables

Independent Variables	**Dependent Variables**
Credit + Investment/Deposit Ratio	Return on Equity
Deposit/Total Liabilities	Return on Assets
Net Interest Margin	Price to earning ratio
Ratio of Intermediation cost to total assets	Investment Returns
Cost of deposits	
Cost of borrowings	
Cost of funds	
Increase in sales	
Size	
Asset Growth	
Volatility in Stock Prices	
Ratio of non interest incomes to total assets	
Ratio of operating incomes to total assets	
Return on advances adjusted to cost of funds	
Return on investment adjusted to cost of funds	
Corporate Governance Index	

We have formulated an ordinary least square model in order to examine the corelation between CG and performance of the FIs with the above mentioned dependent variables that measure performance.

CHAPTER 5: CORPORATE GOVERNANCE PRACTICES IN FINANCIAL INSTITUTIONS

SECTION-I:

CORPORATE GOVERNANCE STRUCTURAL DYNAMICS IN FINANCIAL INSTITUTIONS

As per Chapter IV of SEBI (LODR) Regulations, 2015

An optimum combination of executive and non-executive directors is required with at least one woman director in board and majority of directors need to be from Non-Executive (i.e., 50% or more). In case the Chairman of the board is a Non-executive director then at least 33% of the board of directors shall comprise of Independent Directors. On the other hand when the Chairman is not a regular Non-executive Director, then at least 50% of the board of directors shall comprise of Independent Directors. Although in cases where the regular Non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, then at least 50% of the board of directors of the listed entity shall consist of Independent Directors.

The Companies Act, 2013 stipulates that at least one third of all Directors of the listed companies must be independent directors, whereas under the SEBI listing agreement under Clause 49 does not specify any specific requirement for the percentage of independent directors where the Board has an executive Chairman.

The world over there is an increasing trend of diversifying the board by opting Directors from diverse backgrounds. A well-structured and diversified board brings a variety of skill sets and cognitive processes which can catalyse change as well as identify and address new opportunities. In this context, one of the critical diversity measures is gender participation in decision making. This critical measure can be measured by the participation of the women in boards. Simultaneously Sec. 149 of the Companies Act, 2013 stipulates that all listed companies, there should be at least one women director in the board.

An active board is a pre requisite for efficient running the company and productive output, the pro activity of the board can be measured by the number of board meetings held and the participation of the board members.

Under the Clause 49 and the provisions of the Companies Act, 2013, the number of committees varies widely. But Audit and Remuneration committees are mentioned in Clause 49.

For a company to be run efficiently there should be set processes to address the corporate governance issues. The corporate governance issues should be decided in a transparent and nonpartisan way. (One way to ensure this is that the committees which have been entrusted these issues should consist of independent directors). During recent times few of the issues which have been plaguing the financial sector are a.) excessive remuneration to the executives b.) Increased risk in the financial products sold c.) opaque nature of information provided by firms and d.)

grievance redressal of the shareholders. One of the ways to address these issues is to have various board committees looking and addressing these issues and to ensure transparency, the members of these board committees should be independent directors of the board.

In the light of above, in this section we are going to discuss about a.) board structure b.) committees of the board of the sample FIs.

5.1.1 PUBLIC SECTOR BANKS

STATE BANK OF INDIA (SBI)

Founded in 1806, Bank of Calcutta was the first bank established in India and over a period of time evolved into State Bank of India (SBI). SBI represents a sterling legacy of over 200 years. It is the oldest commercial bank in the Indian subcontinent.

The Bank's Philosophy on Code of Governance

State Bank of India is committed to the best practices in the area of Corporate Governance, in letter and in spirit. The Bank believes that good Corporate Governance is much more than complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders. The objectives can be summarized as:

- To protect and enhance shareholder value.
- To protect the interest of all other stakeholders such as customers, employees and society at large.
- To ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
- To ensure accountability for performance and customer service and to achieve excellence at all levels.
- To provide corporate leadership of highest standard for others to emulate.

The Bank is Committed To

- Ensuring that the Bank's Board of Directors meets regularly, provides effective leadership and insights in business and functional matters and monitors Bank's performance.
- Establishing a framework of strategic control and continuously reviewing its efficacy.
- Establishing clearly documented and transparent management processes for policy development, implementation and review, decision-making, monitoring, control and reporting.
- Providing free access to the Board to all relevant information, advices and resources as are necessary to enable it to carry out its role effectively.
- Ensuring that the Chairman has the responsibility for all aspects of executive management and is accountable to the Board for the ultimate performance of the Bank and implementation of the policies laid down by the Board.
- The role of the Chairman and the Board of Directors are also guided by the SBI Act, 1955 with all relevant amendments.
- Ensuring that a senior executive is made responsible in respect of compliance issues with all applicable statutes, regulations and other procedures, policies as laid down by the GOI/RBI and other regulators and the Board, and reports deviations, if any.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.1*.

Table 5.1: Board Structure, Strength and Size of SBI

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	14	15	14	16	14
Non-Executive (excluding Chairman)	5	6	7	7	6
Independent Non Executive	4	4	4	4	4
Women Non-Executive	1	0	0	0	0
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	4	4	2	4	3
Women Executive	1	1	1	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	12	12	12	13	12
Is the Chairman Executive?	Yes	Yes	Yes	Yes	Yes

Board Structure, Strength and Size

Central Board of SBI

State Bank of India was formed in 1955 by an Act of the Parliament, i.e., The State Bank of India Act, 1955. A Central Board of Directors was constituted according to the Act. The Bank's Central Board draws its powers from and carries out its functions in compliance with the provisions of SBI Act & Regulations 1955. Its major roles include, among others:

- Overseeing the risk profile of the Bank;
- Monitoring the integrity of its business and control mechanisms;
- Ensuring expert management, and
- Maximising the interests of its stakeholders.

The Central Board is headed by the Chairman, appointed under section 19(a) of SBI Act; four Managing Directors are also appointed members of the Board under section 19(b) of SBI Act. The Chairman and Managing Directors are whole time Directors.

Composition of the Central Board

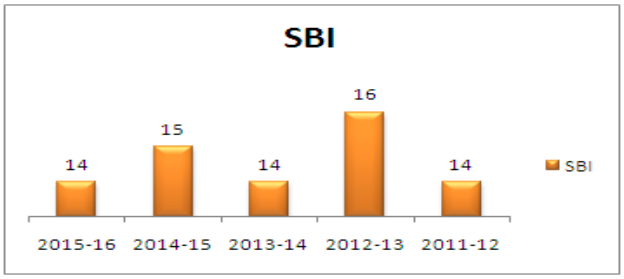


Chart 5.1: Number of Central Board Members of SBI

The Central Board of SBI on average consists of 14 to 16 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013 which stipulates a maximum of 15 directors provided that a company may appoint more then 15 directors after passing a special resolution.

Distribution of the Board

The percentage of non-executive director's range from 65 % to 79 % during 2011-12 to 2015-16 which is in accordance with the Act.

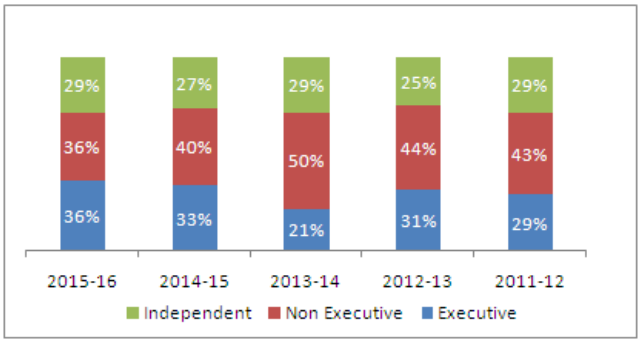


Chart 5.2: Distribution of Executive, Non executive and Independent Board Members of SBI

Women Participation in the Board

The Central Board of SBI is having at least one woman director on its board since the commencement of this Act i.e. from 2013-14 onwards. Prior to commencement of this Act the SBI board was not having any woman director for the year 2011-12 and 2012-13.

Board Meetings

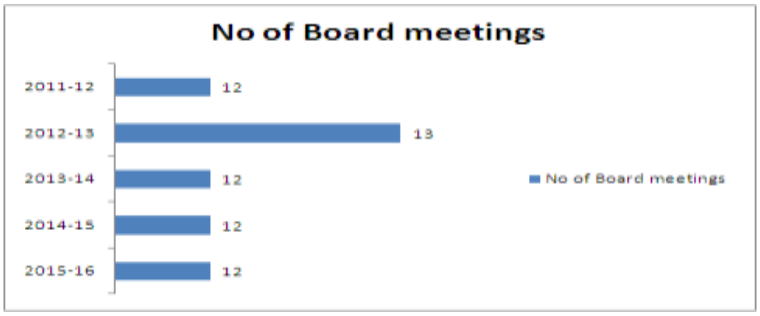


Chart 5.3: Number of Central Board meetings held in SBI

The central board of SBI on average is holding its board meeting every month, which is a sign of pro active management implying that the constant engagement of the board will lead to less number of corporate governance issues.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee.

Table 5.2: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of SBI

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	8	8	8	8	7	4	4	4	4	4	8	8	7	7	8
No. of ID	6	6	6	6	5	4	4	4	4	4	4	4	4	4	4
No of ED	2	2	2	2	2	0	0	0	0	0	2	2	2	2	2
No. of meetings	11	11	10	10	9	1	1	1	1	1	4	4	4	6	4

*Note: * includes two nominees of GOI and RBI*

Audit Committee

In case of SBI, the number of audit committee meetings held was on an average ten per year.

Remuneration Committee

In case of SBI the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Table 5.3: Stakeholders Relationship Committee and CSR Committee of SBI

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	5	7	6	6	5	6	7	NA	NA	NA
No. of ID	3	4	4	4	3	4	4	NA	NA	NA
No of ED	2	3	2	2	2	2	3	NA	NA	NA
No. of meetings	4	4	4	4	4	4	2	NA	NA	NA

Stakeholder Relationship Committee

In case of SBI, the committee has been constituted as per the mandatory requirement and on average have held four meetings per year.

Risk Management Committee

SBI has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

CSR Committee

As per the provisions of the Sec 135 of the Companies Act, 2013, the CSR committee held three meetings on average per year and the committee constituted four ID and two EDs, which is in line with the mandatory requirements.

UNITED BANK OF INDIA (UBI)

United Bank of India is an Indian government-owned financial services company headquartered in Kolkata. The bank was set up in 1950.

The Bank's Philosophy on Code of Governance

In United Bank of India, the fundamental philosophy of Corporate Governance is guided by the Bank's obligations to its responsibilities and value creation through effective management and control. The Bank's policies and practices are not only consistent with statutory requirements, but also all-encompassing to honour its commitments to take the organization to the next level.

The Bank defines Corporate Governance as a systematic process by which an organization is directed and controlled to maintain a set of well defined ethical standards and at the same time enhance its wealth generating capacity. The Board is collectively responsible for ensuring that Corporate Governance process is structured to direct Bank's actions, assets and resources to achieve this purpose while complying with Governance Codes.

The Bank on one hand is extremely mindful about Shareholders' values while on the other hand responsibly upholds the needs of the economy, national priorities and corporate growth. It recognizes high standards of ethical values, financial discipline and integrity in achieving excellence in all fields of activities. The Bank seeks to proclaim corporate excellence by –

- Upholding Shareholders' values within the established principles and legal framework of the Nation;
- Clear statement of Board Processes and Board's relationship with the executive Management;
- Framing transparent corporate strategies, effective policies, efficient procedures, rigid ethical standards, strict legal responsibilities and fostering overall professional approach;
- Extending best of facilities and services to the customers;
- Proclaiming congenial environment for employees, customers and the society at large;
- Ensuring pro-active management, free from any bias.

Bank considers itself a Trustee to the Stakeholders and acknowledges the fiduciary responsibility towards them by creating and safeguarding their wealth. The fundamental drivers of sustainable performance are safety, security, respect, excellence and teamwork.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.4*.

Table 5.4: Board Structure, Strength and Size of UBI

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	9	8	11	10	11
Non-Executive (excluding Chairman)	2	2	3	2	3
Independent Non Executive	4	3	6	6	6
Women Non-Executive	1	2	2	1	1
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	2	2	2	2	1
Women Executive	0	0	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	10	9	14	14	11
Is the Chairman Executive?	YES	YES	YES	YES	YES

Board Structure, Strength and Size

The Board is constituted in accordance with The Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970 and Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970.

Composition of the Board

Chart 5.4: Number of Board Members of UBI

The Board of UBI on average consists of 8 to 11 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

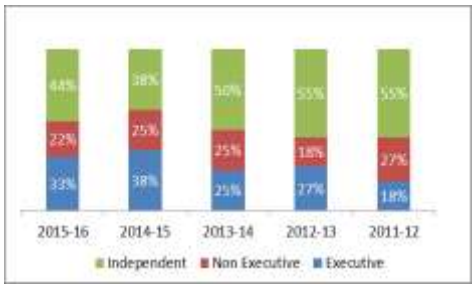


Chart 5.5: Distribution of Executive, Non-executive and Independent Board Members of UBI

In the board of UBI, the percentage of non executive directors range from 62 % to 82 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of UBI is having at least one woman director on its board from 2011-12 to 215-16.

Board Meetings

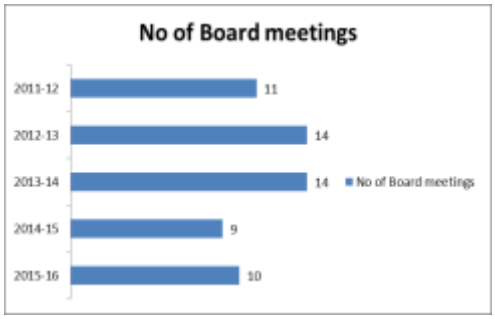


Chart 5.6: Number of Board meetings held in UBI

The board of UBI on average is holding its board meeting nine to fourteen every month, which is a sign of pro active management implying that the constant engagement of the board will lead to less number of corporate governance issues.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee. *(See Table-5.5)*

Table 5.5: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of UBI

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	7	5	9	9	7	5	4	4	4	4	NA	4	3	5	4
No. of ID	6	4	7	7	6	5	4	4	4	4	NA	2	2	3	2
No of ED	1	1	2	2	1	0	0	0	0	0	NA	2	1	2	2
No. of meetings	9	10	12	9	11	1	1	1	1	1	NA	3	2	4	4

*Note: * includes nominees of GOI and RBI*

Audit Committee

In case of UBI, the number of audit committee meetings held was at least nine per year.

Remuneration Committee

In case of UBI the Remuneration Committee consists of non-executive directors only for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

UBI has complied with the requirements w.r.t risk management committee from 2011-12 to 2014-15.

Stakeholder Relationship Committee

In case of UBI, the committee has been constituted as per the mandatory requirement and on average have held four meetings per year.

CSR Committee

UBI has not constituted CSR committee till 2015-16.

Table 5.6: Stakeholders Relationship Committee and CSR Committee of UBI

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	5	3	5	4	5	NA	NA	NA	NA	NA
No. of ID	3	2	3	2	2	NA	NA	NA	NA	NA
No of ED	2	1	2	2	1	NA	NA	NA	NA	NA
No. of meetings	4	4	4	4	4	NA	NA	NA	NA	NA

STATE BANK OF MYSORE (SBM)

State Bank of Mysore is a nationalized bank in India, with headquarters at Bengaluru. It is one of the five associate banks of State Bank of India. It was established in the year 1913 as The Bank of Mysore Ltd.

The Bank's Philosophy on Code of Governance

State Bank of Mysore, as an organization driven by values, is committed to pursue objectives that are in the interests of the Bank, Shareholders and all stake holders and the society at large, in consonance with best practices. The Bank believes that Corporate Governance facilitates effective management and better internal controls.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.7*.

Table 5.7: Board Structure, Strength and Size of SBM

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	12	12	12	12	14
Non-Executive (excluding Chairman)	3	3	3	3	4
Independent Non Executive	6	6	6	6	6
Women Non-Executive	0	0	0	1	1
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	3	3	3	3	4

Women Executive	1	1	1	0	1
Foreign Executive	0	0	0	0	0
No. of Board meetings	6	8	8	11	9
Is the Chairman Executive?	YES	YES	YES	YES	YES

The Board is constituted in accordance with The Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970 and Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970.

Composition of the Board

Chart 5.7: Number of Board Members of SBM

The Central Board of SBM on average consists of 12to 14 members, which is in line with the Sec. 149 (1).

Distribution of the Board

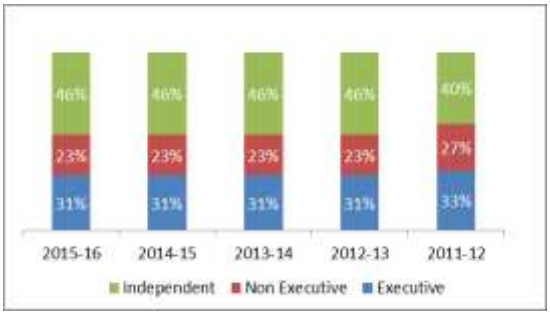


Chart 5.8: Distribution of Executive, Non-executive and Independent Board Members of SBM

The percentage of non executive directors in the board of SBM range from 67 % to 69 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Board Meetings

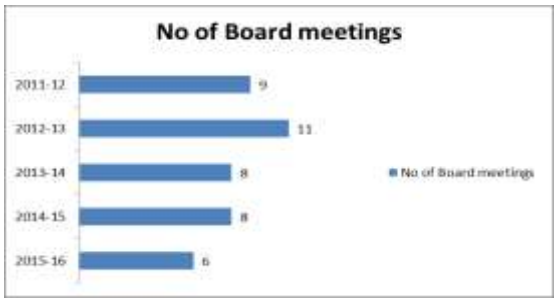


Chart 5.9: Number of Board meetings held in SBM

The board of SBM on average is holding its board meeting on an average 6 to 11every year from 2011-12 to 2015-16.

Women Participation in the Board

The Board of SBM is having at least one woman director on its board since 2011-12 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee (*Table-5.8).*

Table 5.8: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of SBM

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	3	3	3	3	4	4	NA	NA	NA	NA	4	4	4	4	5
No. of ID	3	3	3	3	3	2	NA	NA	NA	NA	2	2	2	2	2
No of ED	0	0	0	0	1	0	NA	NA	NA	NA	2	2	2	2	2
No. of meetings	NA	NA	NA	NA	8	1	NA	NA	NA	NA	6	6	6	8	9

*Note: * includes two nominees of GOI and RBI*

Audit Committee

In case of SBM, the number of audit committee meetings held was 8 in the year 2011-12.The information for the years 2012-13 to 2015-16 are not available in the Annual reports.

Remuneration Committee

In case of SBM the Remuneration Committee consists of only non executive directors in the year 2015-16. For the period 2011-12 to 2014-15, information not available in the annual reports.

Risk Management Committee

SBM has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Table 5.9: Stakeholders Relationship Committee and CSR Committee of SBM

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	3	3	3	3	NA	NA	NA	NA	NA	NA
No. of ID	2	2	2	2	NA	NA	NA	NA	NA	NA
No of ED	1	1	1	1	NA	NA	NA	NA	NA	NA
No. of meetings	4	4	4	4	NA	NA	NA	NA	NA	NA

Stakeholder Relationship Committee

In case of SBM, the committee has been constituted as per the mandatory requirement and on average have held four meetings per year.

CSR Committee

The board of SBM has not constituted CSR committee till 2015-16.

PUNJAB AND SINDH BANK (PSB)

PSB is a government-owned bank (79.62%), with headquarters in New Delhi. The bank was set up On 24 June 1908.

The Bank's Philosophy on Code of Governance

The Bank shall continue its endeavor to enhance its shareholder's value by protecting their interest by ensuring performance at all levels, and maximizing returns with optimal use of resources in its pursuit of excellence. The Bank shall comply with not only the statutory requirements, but also voluntarily formulate and adhere to a set of strong Corporate Governance practices. The Bank believes in setting high standards of ethical values, transparency and a disciplined approach to achieve excellence in all its sphere of activities. The Bank is also committed to follow the best practices. The Bank shall strive hard to best serve the interests of its stakeholders comprising shareholders, customers, Government and society at large.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.10.*

Table 5.10: Board Structure, Strength and Size of PSB

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	10	9	13	11	10
Non-Executive (excluding Chairman)	2	2	2	2	2
Independent Non Executive	5	5	8	7	6
Women Non-Executive	1	1	1	0	0
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	2	1	2	1	1

Women Executive	0	0	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	9	9	16	11	9
Is the Chairman Executive?	YES	YES	YES	YES	YES

The composition of Board of Directors of the Bank is governed by the provisions of the Banking Regulation Act, 1949, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, as amended and the Nationalized Banks Management and Miscellaneous Provisions Scheme, 1980, as amended.

Composition of the Board

Chart 5.10: Number of Board Members of PSB

The Board of PSB on average consists of 9 to 13 members, which is in line with the Sec. 149 (1) of the Companies Act, 201.

Distribution of the Board

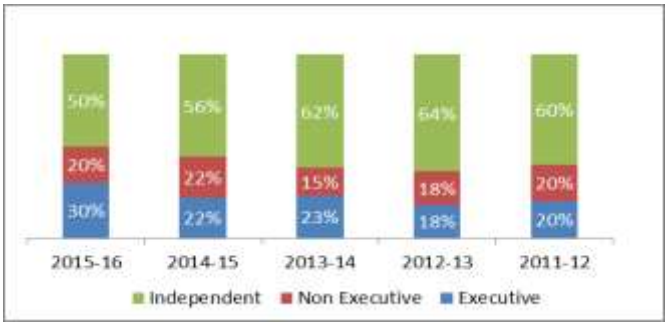


Chart 5.11: Distribution of Executive, Non-executive and Independent Board Members of PSB

The percentage of non-executive directors in the board of PSB range from 70 % to 82 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of PSB is having one woman director on its board since 2013-14.

Board Meetings

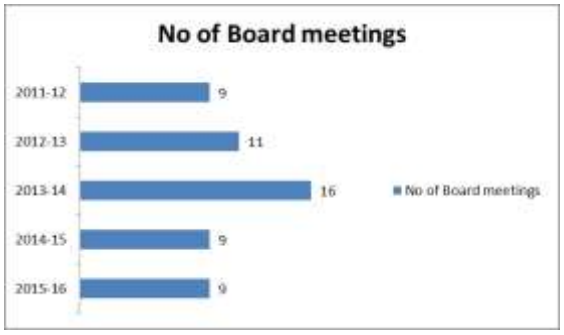


Chart 5.12: Number of Board meetings held in PSB

The board of PSB on average is holding its board meeting nine to twelve every year, which is a sign of proactive management implying that the constant engagement of the board will lead to less number of corporate governance issues.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee *(Table 5.11).*

Table 5.11: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of PSB

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	5	5	6	5	5	4	4	4	4	4	6	5	6	5	5
No. of ID	4	4	4	4	4	4	4	4	4	4	4	3	3	3	3
No of ED	1	1	2	1	1	0	0	0	0	0	2	2	3	2	2
No. of meetings	7	8	8	8	7	1	1	1	1	1	4	4	4	4	4

*Note: * includes nominees of GOI and RBI*

Audit Committee

In case of PSB, the number of audit committee meetings held was on average of seven to eight per year.

Remuneration Committee

In case of PSB the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

PSB has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Table 5.12: Stakeholders Relationship Committee and CSR Committee of PSB

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	5	4	4	4	4	NA	NA	NA	NA	NA
No. of ID	2	2	2	2	2	NA	NA	NA	NA	NA
No of ED	3	2	2	2	2	NA	NA	NA	NA	NA
No. of meetings	4	4	4	4	4	NA	NA	NA	NA	NA

Stakeholder Relationship Committee

In case of PSB, the committee has been constituted as per the mandatory requirement and on average have held four meetings per year.

CSR Committee

The board of PSB has not constituted CSR committee till 2015-16.

PUNJAB NATIONAL BANK (PNB)

Punjab National Bank is an Indian multinational banking and financial services company. It is a state-owned corporation based in New Delhi. The bank was founded in 1894.

The Bank's Philosophy on Code of Governance

PNB's Corporate Governance philosophy stems from the belief that corporate governance is an integral element for improving efficiency and growth of the organization with overall objective of enhancing investor and other stakeholders' confidence. As a Bank PNB is committed to good corporate practices based on conscience, openness, fairness, professionalism and accountability. PNB's Board of Directors, guided by the mission statement, and formulates strategies and policies focusing on value optimization for all stakeholders like customers, shareholders and the society at large.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.13*.

Table 5.13: Board Structure, Strength and Size of PNB

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	11	10	15	12	12
Non-Executive (excluding Chairman)	3	3	6	4	4
Independent Non Executive	4	4	5	4	5

Women Non-Executive	1	1	1	0	0
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	3	2	3	3	2
Women Executive	1	0	0	1	1
Foreign Executive	0	0	0	0	0
No. of Board meetings	13	11	13	12	13
Is the Chairman Executive?	YES	YES	YES	YES	YES

Board Structure, Strength and Size

The Board of the Bank is constituted in accordance with the provisions of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, the Nationalized Banks (Management & Miscellaneous Provisions) Scheme, 1970, and the Banking Regulation Act, 1949.

Composition of the Board

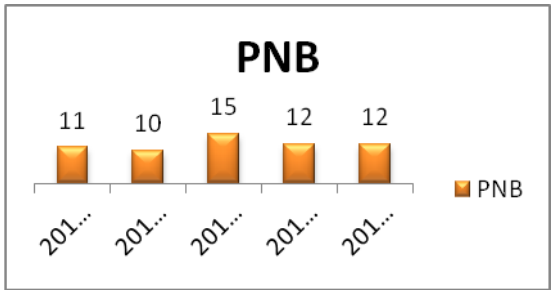


Chart 5.13: Number of Board Members of PNB

The Board of PNB on average consists of 10 to 15 members, which is in line with the Sec. 149 (1).

Distribution of the Board

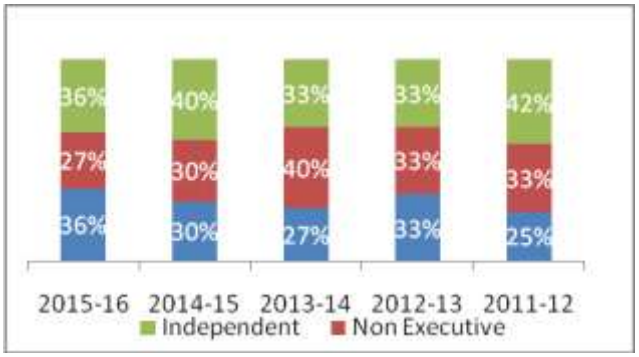


Chart 5.14: Distribution of Executive, Non-executive and Independent Board Members of PNB

The percentage of non executive directors in the board of PNB range from 64 % to 73 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of PNB is having one woman director on its board from 2011-12 to 2015 -16.

Board Meetings

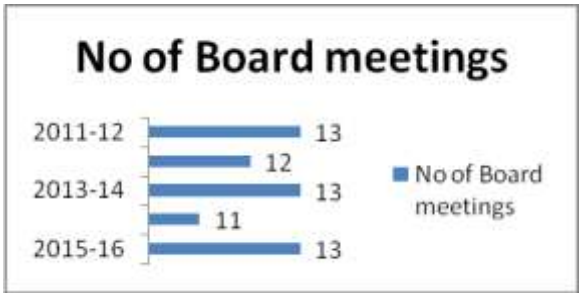


Chart 5.15: Number of Board meetings held in PNB

The board of PNB on average is holding its board meeting eleven to thirteen every year.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee *(Table 5.14)*.

Table 5.14: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of PNB

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	5	4	7	8	7	4	2	4	4	4	6	4	6	9	6
No. of ID	4	3	4	5	5	4	2	4	4	4	2	1	2	5	3
No of ED	1	1	3	3	2	0	0	0	0	0	4	3	4	4	3
No. of meetings	5	11	13	8	11	1	1	1	2	1	4	4	4	4	4

*Note: * includes nominees of GOI and RBI*

Audit Committee

In case of PNB, the number of audit committee meetings held was on average five to thirteen per year.

Remuneration Committee

In case of PNB the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

PNB has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four meetings of the committee were held annually and the

composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Table 5.15: Stakeholders Relationship Committee and CSR Committee of PNB

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	4	4	4	4	3	NA	NA	NA	NA	NA
No. of ID	1	0	1	0	0	NA	NA	NA	NA	NA
No of ED	3	3	3	3	2	NA	NA	NA	NA	NA
No. of meetings	6	6	6	6	6	NA	NA	NA	NA	NA

Stakeholder Relationship Committee

In case of PNB, the committee has been constituted as per the mandatory requirement and on average have held six meetings per year.

CSR Committee

The board of PNB has not constituted CSR committee till 2015-16.

DENA BANK (DB)

Dena Bank headquartered in Mumbai, is owned by the Government of India, The bank was founded in 1938 and the Indian government nationalized it in 1969.

The Bank's Philosophy on Code of Governance

Bank's Corporate Governance philosophy is based on application of best management practices which will facilitate effective management and control of business. This enables the Board and the Senior Management of the Bank to take decisions adhering to ethical standards, transparency, accountability, responsibility and financial stability. The Bank believes that Corporate Governance is closely linked to its core values and is associated with ethical practices, concern for its employees, extending quality service to its customers, striving to meet the shareholders expectations and societal aspirations. This optimizes the value for all its stakeholders which includes not only the Board of Directors and the Senior Management but also the Shareholders, Customers, Employees and the society at large.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.16*.

Table 5.16: Board Structure, Strength and Size of DB

Particulars	2015-16	2014-15	2013-14	2012-13
Total No. of Directors	12	11	14	11
Non-Executive (excluding Chairman)	3	3	6	5
Independent Non Executive	6	5	5	4
Women Non-Executive	0	1	1	0
Foreign Non Executive	0	0	0	0
Executive (excluding Chairman)	2	2	2	1
Women Executive	1	1	1	0
Foreign Executive	0	0	0	0
No. of Board meetings	10	12	12	16
Is the Chairman Executive?	YES	YES	YES	YES

Board Structure, Strength and Size

The Board had constituted Management Committee as per provisions of Nationalized Banks (Management and Miscellaneous Provisions) Scheme, 1970/1980.

Composition of the Board

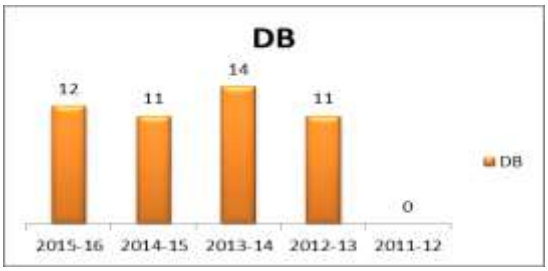


Chart 5.16: Number of Board Members of DB

The Board of DB on average consists of 11 to 14 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

Chart 5.17: Distribution of Executive, Non-executive and Independent Board Members of DB

The percentage of non executive directors in the board of PSB range from 69 % to 82 % during 2012-13 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of PSB is having one woman director on its board from 2013-14 to 2015 -16.

Board Meetings

Chart 5.18: Number of Board meetings held in DB

The board of DB on average is holding its board meeting ten to sixteen every year, which is a sign of pro active management implying that the constant engagement of the board will lead to less number of corporate governance issues.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee *(Table 5.17).*

Table 5.17: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of DB

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	6	5	6	4	6	4	2	4	2	4	5	5	6	4	5
No. of ID	4	3	4	3	4	4	2	4	4	4	2	2	3	2	2
No of ED	2	2	2	1	2	0	0	0	0	0	3	3	3	2	3
No. of meetings	8	9	12	12	8	4	0	1	1	4	4	4	4	4	4

*Note: * includes nominees of GOI and RBI*

Audit Committee

In case of DB, the number of audit committee meetings held was on average of eight to twelve per year.

Remuneration Committee

In case of DB the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

DB has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four meetings of the committee were held annually and the

composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Table 5.18: Stakeholders Relationship Committee and CSR Committee of DB

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	4	3	4	3	4	NA	NA	NA	NA	NA
No. of ID	2	1	2	1	2	NA	NA	NA	NA	NA
No of ED	2	2	2	1	2	NA	NA	NA	NA	NA
No. of meetings	4	3	3	4	4	NA	NA	NA	NA	NA

Stakeholder Relationship Committee

In case of DB, the committee has been constituted as per the mandatory requirement and on average have held four meetings per year.

CSR Committee

The board of DB has not constituted CSR committee till 2015-16.

CENTRAL BANK OF INDIA (CBI)

Central Bank of India, a government-owned bank, is one of the oldest and largest commercial banks in India. It is based in Mumbai.

The Bank's Philosophy on Code of Governance

Thrust of the Corporate Governance of the Bank is to enhance shareholders' value by pursuing ethical practices in the conduct of its business and maintaining high standard of disclosure and transparency. The Bank has adopted best practices, and standards of governance are monitored by various Committees of the Board. The Board, the Executives and other functionaries have distinctly demarcated roles in achieving the Corporate goals – improved performance and enhanced shareholders' value.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.19.*

Table 5.19: Board Structure, Strength and Size of CBI

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	13	14	13	10	13
Non-Executive (excluding Chairman)	3	3	3	2	3
Independent Non Executive	6	6	6	5	6
Women Non-Executive	1	1	1	0	1
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	3	4	3	2	3

Women Executive	0	0	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	13		15	13	13
Is the Chairman Executive?	YES	YES	YES	YES	YES

Board Structure, Strength and Size

The Bank is constituted under the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (as amended from time to time). The general superintendence, direction and management of the affairs and business of the Bank is vested in the Board of Directors presided over by the Chairman and Managing Director.

The composition of the Board of Directors of the Bank is governed by the provisions of the Banking Regulation Act, 1949, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 as amended and the Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970, as amended.

Composition of the Board

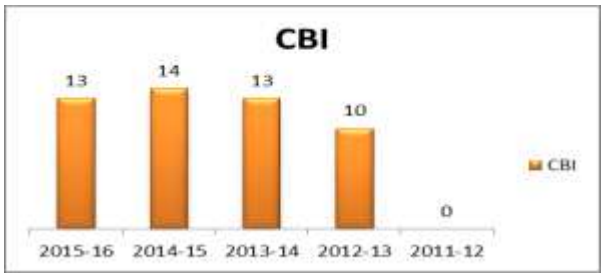


Chart 5.19: Number of Board Members of CBI

The Board of CBI on average consists of 10 to 14 members, which is in line with the Sec. 149 (1).

Distribution of the Board

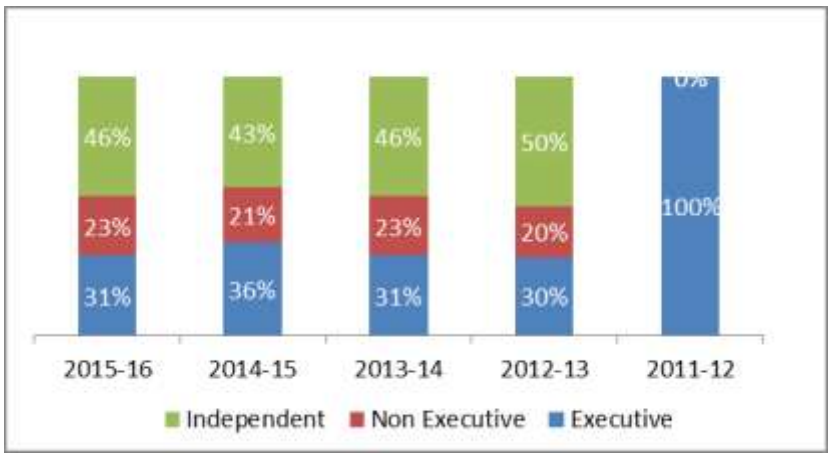


Chart 5.20: Distribution of Executive, Non-executive and Independent Board Members of CBI

The percentage of non executive directors in the board of CBI range from 64 % to 70 % during 2012-13 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of CBI is having one woman director on its board from 2011-12 to 2015 -16 excepting 2012-13.

Board Meetings

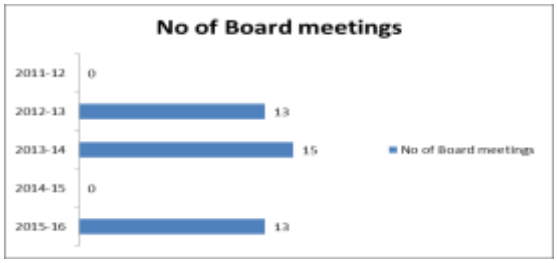


Chart 5.21: Number of Board meetings held in CBI

The board of CBI on average is holding its board meeting thirteen to fourteen every year, which is a sign of pro active management implying that the constant engagement of the board will lead to less number of corporate governance issues.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee *(Table 5.20)*.

Table 5.20: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of CBI

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	5	6	7	5	5	4	2	0	2	4	8	4	3	4	8
No. of ID	4	4	4	4	4	4	2	0	2	4	8	4	3	4	8
No of ED	1	2	3	1	1	0	0	0	0	0	0	0	0	0	0
No. of meetings	15	4	8	9	15	4	2	2	2	4	NA	NA	NA	NA	NA

*Note: * includes nominees of GOI and RBI*

Audit Committee

In case of CBI, the number of audit committee meetings held was on average of four to fifteen per year.

Remuneration Committee

In case of CBI the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

CBI has not held any meeting of the risk management committee during the period 2011-12 to 2015-16

Table 5.21: Stakeholders Relationship Committee and CSR Committee of CBI

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	5	5	5	5	5	NA	NA	NA	NA	NA
No. of ID	2	2	2	2	2	NA	NA	NA	NA	NA
No of ED	3	3	3	3	3	NA	NA	NA	NA	NA
No. of meetings	4	4	4	4	4	NA	NA	NA	NA	NA

Stakeholder Relationship Committee

In case of CBI, the committee has been constituted as per the mandatory requirement and on average have held four meetings per year.

CSR Committee

The board of CBI has not constituted CSR committee till 2015-16.

BANK OF BARODA (BOB)

Bank of Baroda is an Indian state-owned banking and financial services company headquartered in Vadodara (earlier known as Baroda) in Gujarat, India. It is the second largest bank in India, next to State Bank of India.

The Bank's Philosophy on Code of Governance

The Bank shall continue its endeavor to enhance its shareholders' value by protecting their interest by ensuring performance at all levels and maximizing returns with optimal use of resources in pursuit of excellence. The Bank shall comply with not only the statutory requirements but also voluntarily formulate and adhere to a set of strong Corporate Governance practices. The Bank believes in setting high standards of ethical values, transparency and disciplined approach to achieve excellence in all its sphere of activities.

The Bank is also committed to follow the best international practices. The Bank shall strive hard to serve the interests of its stakeholders comprising shareholders, customers, Government, employees, creditors and society at large.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.22*.

Table 5.22: Board Structure, Strength and Size of BOB

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	10	8	10	13	13
Non-Executive (excluding Chairman)	2	2	2	4	5
Independent Non Executive	4	3	4	5	5
Women Non-Executive	1	1	0	0	1
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	3	2	3	3	2
Women Executive	0	1	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	13	18	20	17	17
Is the Chairman Executive?	NO	YES	YES	YES	YES

Board Structure, Strength and Size

The composition of Board of Directors of the Bank is governed by the provisions of The Banking Regulation Act, 1949, The Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970, as amended and The Nationalized Banks (Management & Miscellaneous Provisions) Scheme, 1970, as amended.

Composition of the Board

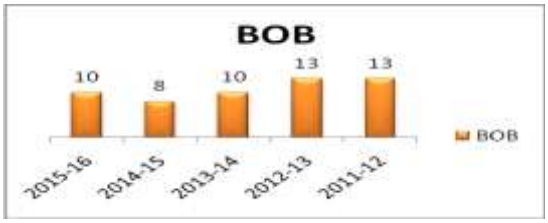


Chart 5.22: Number of Board Members of BoB

The Board of BOB on average consists of 8 to 13 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

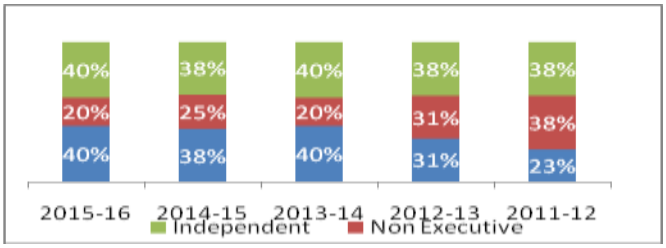


Chart 5.23: Distribution of Executive, Non-executive and Independent Board Members of BoB

The percentage of non executive directors in the board of BOB range from 60 % to 72 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4) of the Companies Act, 2013.

Women Participation in the Board

The Board of BOB is having one woman director on its board from 2011-12 TO 2015-16 excepting years 2012-13 and 2013-14 to 2015 -16.

Board Meetings

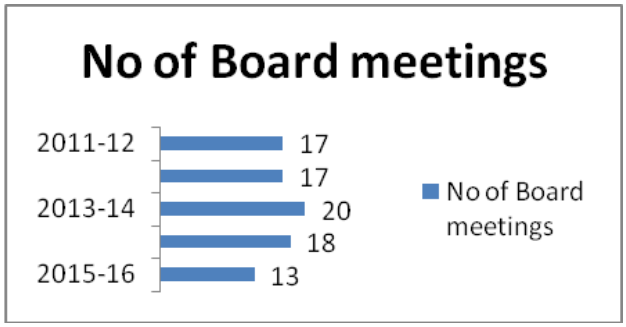


Chart 5.24: Number of Board meetings held in BoB

The board of BOB on average is holding its board meeting thirteen to sixteen every year, which is a sign of pro active management implying that the constant engagement of the board will lead to less number of corporate governance issues.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee *(Table 5.23).*

Table 5.23: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of BOB

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	5	6	6	6	6	5	2	4	4	4	5	4	5	5	4
No. of ID	4	4	3	3	4	5	2	4	4	4	2	2	1	1	1
No of ED	1	2	3	3	2	0	0	0	0	0	3	2	4	4	3
No. of meetings	12	11	12	11	11	2	1	1	2	1	5	2	4	4	4

*Note: * includes nominees of GOI and RBI*

Audit Committee

In case of BOB, the number of audit committee meetings held was on average of eleven to twelve per year.

Remuneration Committee

In case of BOB the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

BOB has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four to five meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Table 5.24: Stakeholders Relationship Committee and CSR Committee of BOB

Particulars	**Stakeholders Relationship Committee**					**CSR Committee**				
	2015-16	**2014-15**	**2013-14**	**2012-13**	**2011-12**	**2015-16**	**2014-15**	**2013-14**	**2012-13**	**2011-12**
No. of members	4	4	5	6	5	NA	NA	NA	NA	NA
No. of ID	2	2	2	2	2	NA	NA	NA	NA	NA
No of ED	2	2	3	3	2	NA	NA	NA	NA	NA
No. of meetings	4	4	4	4	4	NA	NA	NA	NA	NA

Stakeholder Relationship Committee

In case of BOB, the committee has been constituted as per the mandatory requirement and on average have held three to four meetings per year.

CSR Committee

The board of BOB has not constituted CSR committee till 2015-16.

5.1.2 Private Sector Banks

Axis Bank (AB)

Axis Bank is the third largest of the private-sector banks in India offering a comprehensive suite of financial products. The bank has its headquarters in Ahmedabad.

The Bank's Philosophy on Code of Governance

The Bank's policy on Corporate Governance has been:

- To enhance the long-term interest of its shareholders, provide good management, adopt prudent risk management techniques and comply with the required standards of capital adequacy, thereby safeguarding the interest of its other stakeholders such as depositors, creditors, customers, suppliers and employees.
- To institutionalise accountability, transparency and equality of treatment for all its stakeholders, as central tenets of good corporate governance and to articulate this approach in its day-to-day functioning and in dealing with all its stakeholders.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.25*.

Table 5.25: Board Structure, Strength and Size of AB

Particulars	2015-16	2014-15	2013-14	2012-13
Total No. of Directors	13	13	14	14
Non-Executive (excluding Chairman)	7	6	6	6
Independent Non Executive	8	7	7	7
Women Non-Executive	2	2	2	1
Foreign Non Executive	0	0	0	0
Executive (excluding Chairman)	5	6	7	7
Women Executive	1	1	1	1
Foreign Executive	0	0	0	0
No. of Board meetings	5	7	6	11
Is the Chairman Executive?	YES	YES	YES	YES

Board Structure, Strength and Size

The composition of the Board of Directors of the Bank is governed by the relevant provisions of the Companies Act, 2013, the Rules made thereunder, the Banking Regulation Act, 1949 and revised Clause 49 of the Listing Agreement relating to Corporate Governance.

Composition of the Board

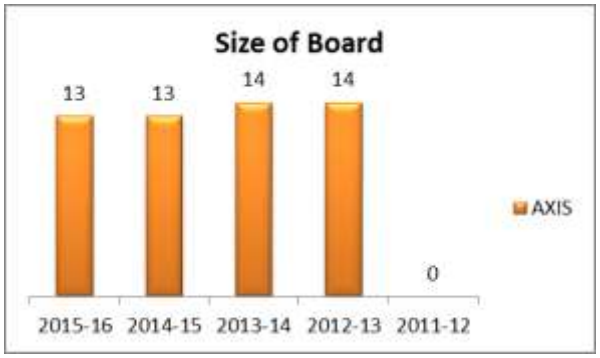


Chart 5.25: Number of Board Members of AB

The Board of AB on average consists of 13 to 14 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

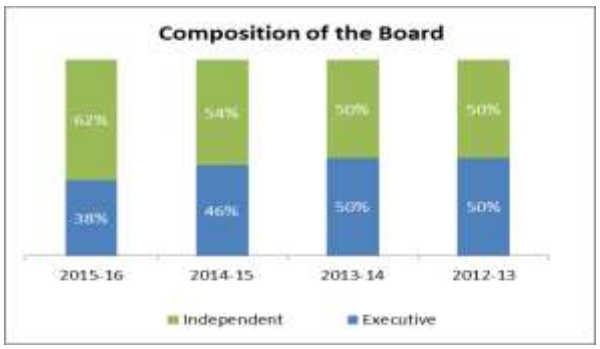


Chart 5.26: Distribution of Executive, Non-executive and Independent Board Members of AB

The percentage of non-executive directors in the board of AB range from 50 % to 62 % during 2012-13 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of AB is having two to three woman director on its board from 2012-13 to 2015-16.

Board Meetings

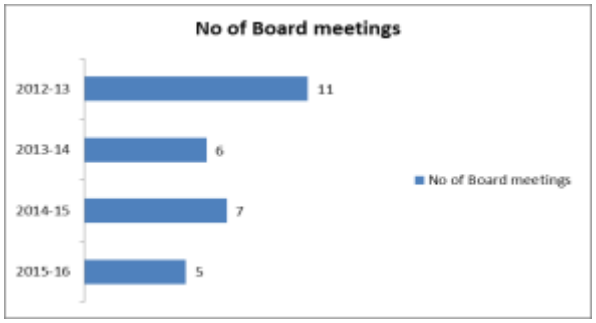


Chart 5.27: Number of Board meetings held in AB

The board of AB on average is holding five to eleven board meeting every year from 2012-13 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee.

Table 5.26: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Board of AB

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	3	4	4	4	NA	5	4	4	4		5	6	5	5	NA
No. of ID	3	4	4	4	NA	5	4	4	4		4	5	4	4	NA
No of ED	0	0	0	0	NA	0	0	0	0		1	1	1	1	NA
No. of meetings	15	11	11	12	NA	7	4	5	6		5	4	5	5	NA

Audit Committee

In case of AB, the number of audit committee meetings held was on average eleven to fifteen per year.

Remuneration Committee

In case of AB the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2012-13 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

AB has complied with these requirements from 2012-13 to 2015-16, which is clearly evident from the fact that on average four to five meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Stakeholder Relationship Committee

In case of AB, the committee has been constituted as per the mandatory requirement and on average has held two to five meetings per year from 2012-13 to 2015-16.

CSR Committee

As per the provisions of the Sec 135 of the Companies Act, 2013, the CSR committee was formed by the board of AB from 2014-15.

Table 5.27: Stakeholders Relationship Committee and CSR Committee of AB

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	3	3	3	3	NA	3	3	3	0	NA
No. of ID	2	2	2	2	NA	2	2	2	0	NA
No of ED	1	1	1	1	NA	1	1	1	0	NA
No. of meetings	3	2	5	4	NA	3	2	0	0	NA

Dhanlaxmi Bank Ltd. (DB)

DB was established on 14 November 1927 at Thrissurcity, Kerala. with a capital of □11,000 and 7 employees. It became a Scheduled Commercial Bank in the year 1977.

The Bank's Philosophy on Code of Governance

The Bank's Corporate governance ensures high standards of transparency, accountability, ethical operating practices, professional management thereby enhancing shareholder's value of protecting the interest of the stakeholders such as depositors, customers, creditors, suppliers and employees. The Bank is committed to highest standards of Corporate governance by ensuring integrity in financial reporting ,disclosure of material information, continuous improvement of internal controls and sound investor relations.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.28*.

Table 5.28: Board structure, Strength and Size of DB

Particulars	2015-16	2014-15	2013-14	2012-13
Total No. of Directors	12	11	14	11
Non-Executive (excluding Chairman)	3	3	6	5
Independent Non Executive	6	5	5	4
Women Non-Executive	0	1	1	0
Foreign Non Executive	0	0	0	0
Executive (excluding Chairman)	2	2	2	1
Women Executive	1	1	1	0
Foreign Executive	0	0	0	0
No. of Board meetings	10	12	12	16
Is the Chairman Executive?	YES	YES	YES	YES

Board Structure, Strength and Size

The composition of the Board of Directors of the Bank is governed by the relevant provisions of the Companies Act, 2013, the Rules made thereunder, the Banking Regulation Act, 1949 and revised Clause 49 of the Listing Agreement relating to Corporate Governance.

Composition of the Board

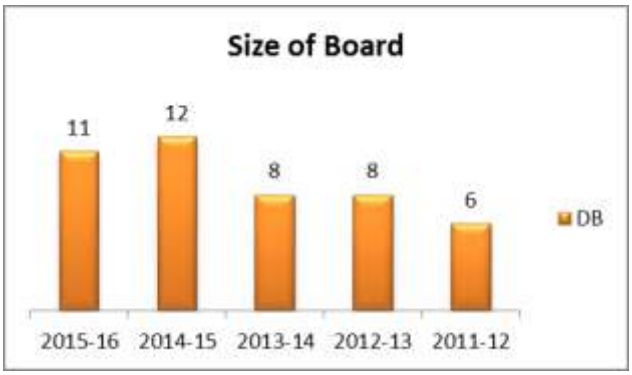


Chart 5.28: Number of Board Members of DB

The Board of DB on average consists of 11 to 14 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

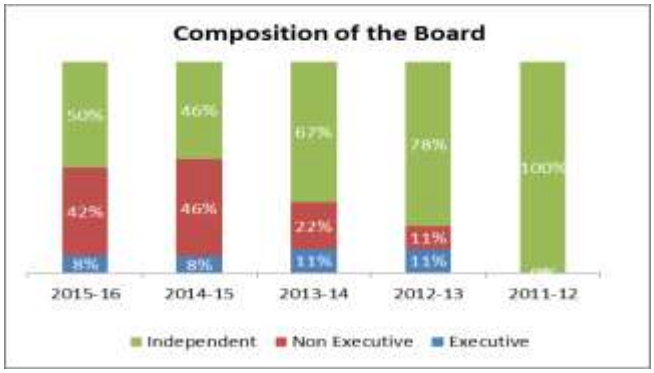


Chart 5.29: Distribution of Executive, Non-executive and Independent Board Members of DB

The percentage of non executive directors in the board of DB range from 89 % to 92 % during 2012-13 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of DB is having one woman director on its board from 2012-13 to 2015-16 excepting 2013-14. .

Board Meetings

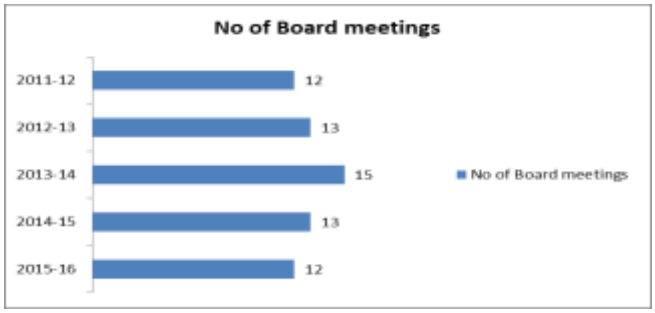


Chart 5.30: Number of Board meetings held in DB

The board of DB on average is holding ten to sixteen board meetings every year from 2012-13 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee *(Table 5.29).*

Table 5.29: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Board of DB

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	6	5	6	4	6	4	2	4	2	4	5	5	6	4	5
No. of ID	4	3	4	3	4	4	2	4	2	4	2	2	3	2	2
No of ED	2	2	2	1	2	0	0	0	0	0	3	3	3	2	3
No. of meetings	8	9	12	12	8	4	0	1	1	4	4	4	4	4	4

*Note: * It includes nominees of GOI and RBI*

Audit Committee

In case of DB, the number of audit committee meetings held was on average eight to twelve per year.

Remuneration Committee

In case of DB the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

DB has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Stakeholder Relationship Committee

In case of DB, the committee has been constituted as per the mandatory requirement and on average have held on an average three to four meetings per year from 2011-12 to 2015-16.

CSR Committee

The board of DB has not constituted a CSR committee till 2015-16.

Table 5.30: Stakeholders Relationship Committee and CSR Committee of DB

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	4	3	4	3	4	NA	NA	NA	NA	NA
No. of ID	2	1	2	1	2	NA	NA	NA	NA	NA
No of ED	2	2	2	1	2	NA	NA	NA	NA	NA
No. of meetings	4	3	3	4	4	NA	NA	NA	NA	NA

DCB Bank Ltd. (DCB)

DCB is a private sector scheduled commercial bank in India.

The Bank's Philosophy on Code of Governance

The Bank continues to believe strongly in adopting and adhering to the best corporate governance practices and benchmarking itself against the industry's best practices. It is the Bank's ongoing endeavour to achieve the highest levels of governance as a part of its responsibility towards the shareholders and other stakeholders. Transparency and integrity continue to be the cornerstones for good governance, and the Bank is strongly committed to these principles for enhancing the stakeholders' value.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.31*.

Board Structure, Strength and Size

The composition of the Board of Directors of the Bank is governed by the relevant provisions of the Companies Act, 2013, the Rules made there under, the Banking Regulation Act, 1949 and revised Clause 49 of the Listing Agreement relating to Corporate Governance.

Table 5.31: Board Structure, Strength and Size of DCB

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	13	13	12	13	11
Non-Executive (excluding Chairman)	11	12	10	11	9
Independent Non Executive	10	10	10	12	8
Women Non-Executive	1	1	0	0	1
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	1	1	1	1	1
Women Executive	0	0	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	7	12	6	8	11
Is the Chairman Executive?	NO	NO	NO	NO	NO

Composition of the Board

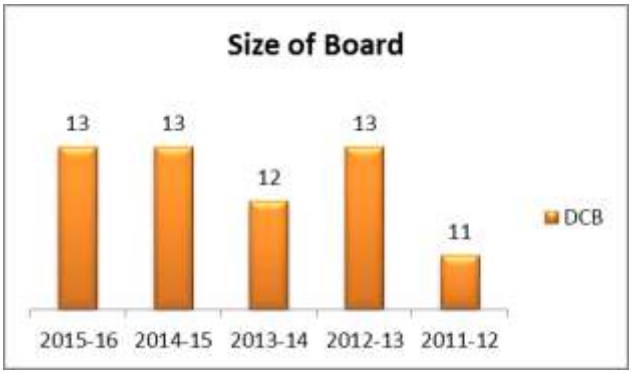


Chart 5.31: Number of Board Members of DCB

The Board of DCB on average consists of 11 to 13 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

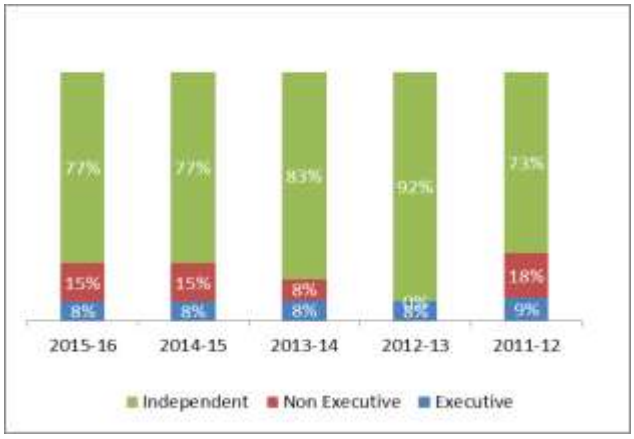


Chart 5.32: Distribution of Executive, Non-executive and Independent Board Members of DCB

The percentage of non executive directors in the board of DCB range from 91 % to 92 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of DCB is having one woman director on its board from 2012-13 to 2015-16 excepting 2012-13 and 2013-14. .

Board Meetings

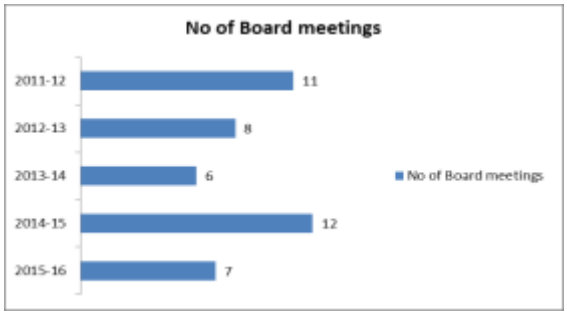


Chart 5.33: Number of Board meetings held in DCB

The board of DCB on average is holding six to twelve board meetings every year from 2011-12 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee.

Table 5.32: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Board of DCB

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members*	5	5	4	4	5	4	4	4	4	3	5	5	5	5	6
No. of ID	4	5	4	4	5	3	4	4	4	3	4	4	5	4	4
No of ED	1	0	0	0	0	1	0	0	0	0	1	1	0	1	1
No. of meetings	8	7	6	6	6	3	6	5	5	3	4	4	7	4	3

*Note: * It includes nominees of GOI and RBI*

Audit Committee

In case of DCB, the number of audit committee meetings held was on average six to eight per year.

Remuneration Committee

In case of DCB the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2014-15 and in the year2015-16, there was one executive director along with three non executive directors.

Risk Management Committee

DCB has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four to seven meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Table 5.33: Stakeholders Relationship Committee and CSR Committee of DCB

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	3	4	3	7	5	5	6	5	NA	NA
No. of ID	3	4	3	6	5	3	4	3	NA	NA
No of ED	0	0	0	1	0	1	1	1	NA	NA
No. of meetings	4	4	4	4	4	2	0	1	NA	NA

Stakeholder Relationship Committee

In case of DCB, the committee has been constituted as per the mandatory requirement and on average have held four meetings per year from 2011-12 to 2015-16.

CSR Committee

As per the provisions of the Sec 135 of the Companies Act, 2013, the CSR committee was formed by the board of DCB from 2013-14.

HDFC Bank Ltd. (HDFC)

The Bank's Philosophy on Code of Governance

The Bank believes in adopting and adhering to the best recognized corporate governance practices and continuously benchmarking itself against each such practice. The Bank understands and respects its fiduciary role and responsibility towards its shareholders and strives hard to meet their expectations.

The Bank believes that best board practices, transparent disclosures and shareholder empowerment are necessary for creating shareholder value. The Bank has infused the philosophy of corporate governance into all its activities. The philosophy on corporate governance is an important tool for shareholder protection and maximization of their long term values. The cardinal principles such as independence, accountability, responsibility, transparency, fair and

timely disclosures, credibility, sustainability etc. serve as the means for implementing the philosophy of corporate governance in letter and spirit.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.34*.

Table 5.34: Board Structure, Strength and Size of HDFC

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	11	11	11	11	11
Non-Executive (excluding Chairman)	6	5	5	5	5
Independent Non Executive	7	6	6	6	6
Women Non-Executive	2	2	1	1	1
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	4	5	5	5	5
Women Executive	0	0	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	7	10	8	6	6
Is the Chairman Executive?	YES	YES	YES	YES	YES

Board Structure, Strength and Size

The composition of the Board of Directors of the Bank is governed by the relevant provisions of the Companies Act, 2013, the Rules made thereunder, the Banking Regulation Act, 1949 and revised Clause 49 of the Listing Agreement relating to Corporate Governance.

Composition of the Board

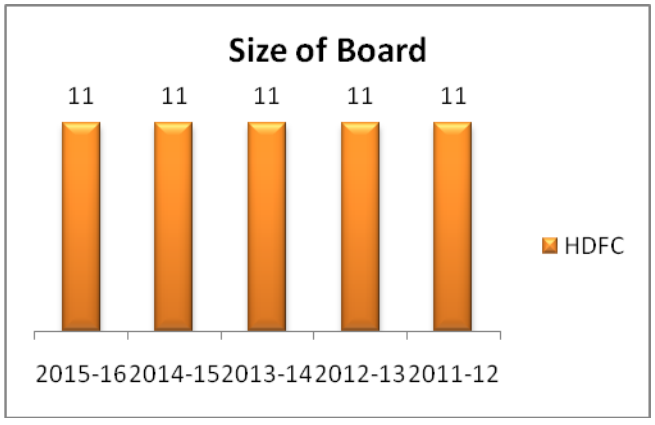


Chart 5.34: Number of Board Members of HDFC

The Board of HDFC on average consists of 11 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

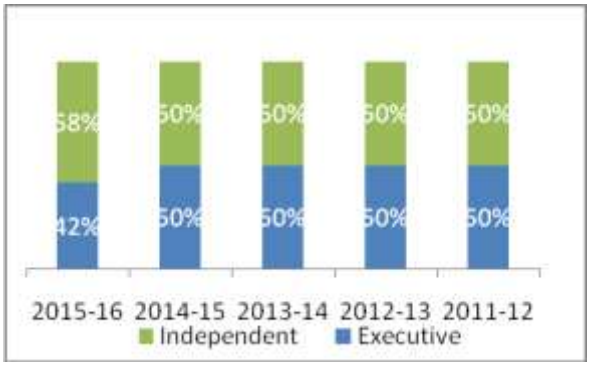


Chart 5.35: Distribution of Executive, Non-executive and Independent Board Members of HDFC

The percentage of non-executive directors in the board of HDFC range from 50 % to 68 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of HDFC is having one to two woman director on its board from 2011-12 to 2015-16.

Board Meetings

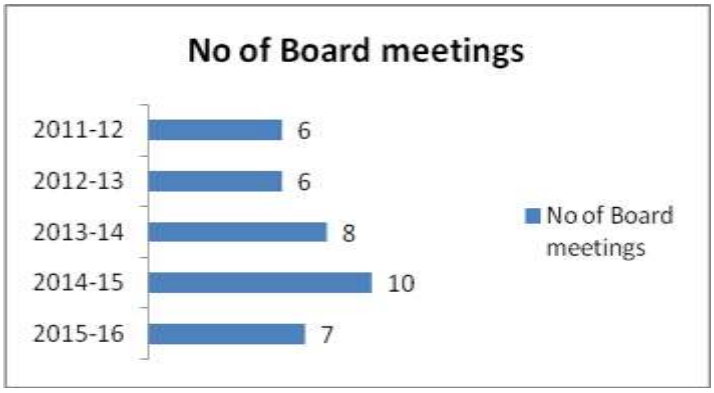


Chart 5.36: Number of Board meetings held in HDFC

The board of HDFC on average is holding six to ten board meeting every year from 2011-12 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee.

Table 5.35: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Board of HDFC

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	4	4	4	4	5	4	3	4	4	4	5	5	5	5	5
No. of ID	4	4	4	4	5	4	3	4	4	4	3	3	3	3	3
No of ED	0	0	0	0	0	0	0	0	0	0	2	2	2	2	2
No. of meetings	9	8	8	5	7	9	3	7	10	3	5	5	7	6	5

Audit Committee

In case of HDFC, the number of audit committee meetings held was on average five to nine on an average per year in the period 2011-12 to 2015-16.

Remuneration Committee

In case of HDFC the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

HDFC has complied with these requirements from 2012-13 to 2015-16, which is clearly evident from the fact that on average three to four meetings of the committee were held annually and the composition of the committee for all the years is such that, it can effectively gauge the risk inherent in operations and external risks.

Table 5.36: Stakeholders Relationship Committee and CSR Committee of HDFC

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	4	4	4	4	4	5	5	5	5	0
No. of ID	3	3	3	2	2	3	3	3	3	0
No of ED	1	1	1	2	2	2	2	2	2	0
No. of meetings	7	5	4	6	5	3	4	3	0	0

Stakeholder Relationship Committee

In case of HDFC, the committee has been constituted as per the mandatory requirement and on average have held four to seven meetings per year from 2011-12 to 2015-16.

CSR Committee

As per the provisions of the Sec 135 of the Companies Act, 2013, the CSR committee was formed by the board of AB from 2011-12.

ICICI Bank Ltd. (ICICI)

ICICI Bank was established by the Industrial Credit and Investment Corporation of India (ICICI), an Indian financial institution, as a wholly owned subsidiary in 1994. The parent company was formed in 1955 as a joint-venture of the World Bank, India's public-sector banks and public-sector insurance companies to provide project financing to Indian industry. Itis an Indian multinational banking and financial services company headquartered in Mumbai with its registered office in Vadodara.

The Bank's Philosophy on Code of Governance

ICICI Bank's corporate governance philosophy encompasses regulatory and legal requirements, which aims at a high level of business ethics, effective supervision and enhancement of value for all stakeholders. The corporate governance framework adopted by the Bank already encompasses significant portion of the recommendations contained in the 'Corporate Governance Voluntary Guidelines 2009' issued by the Ministry of Corporate Affairs, Government of India.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.37*.

Table 5.37: Board Structure, Strength and Size of ICICI

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	13	12	12	12	12
Non-Executive (excluding Chairman)	7	7	7	7	7
Independent Non Executive	7	7	7	7	7
Women Non-Executive	0	0	0	1	1
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	5	4	4	4	4
Women Executive	2	1	1	1	1
Foreign Executive	0	0	0	0	0
No. of Board meetings	10	7	6	5	6
Is the Chairman Executive?	YES	YES	YES	YES	YES

Board Structure, Strength and Size

ICICI Bank has a broad-based Board of Directors, constituted in compliance with the Banking Regulation Act, 1949, the Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in accordance with good corporate governance practices.

Composition of the Board

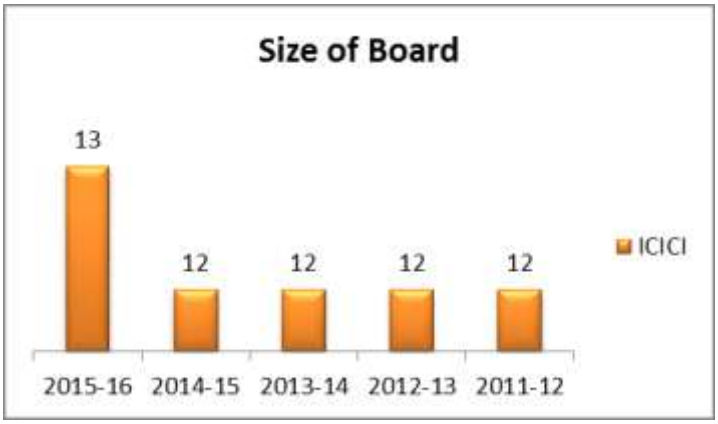


Chart 5.37: Number of Board Members of ICICI

The Board of ICICI on average consists of 12 to 13 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

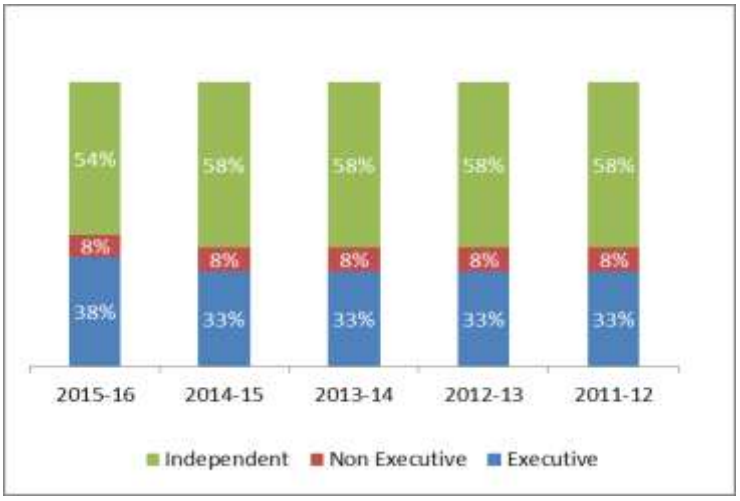


Chart 5.38: Distribution of Executive, Non-executive and Independent Board Members of ICICI

The percentage of non executive directors in the board of ICICI range from 62 % to 67 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of ICICI is having one to two woman director on its board from 2011-12 to 2015-16.

Board Meetings

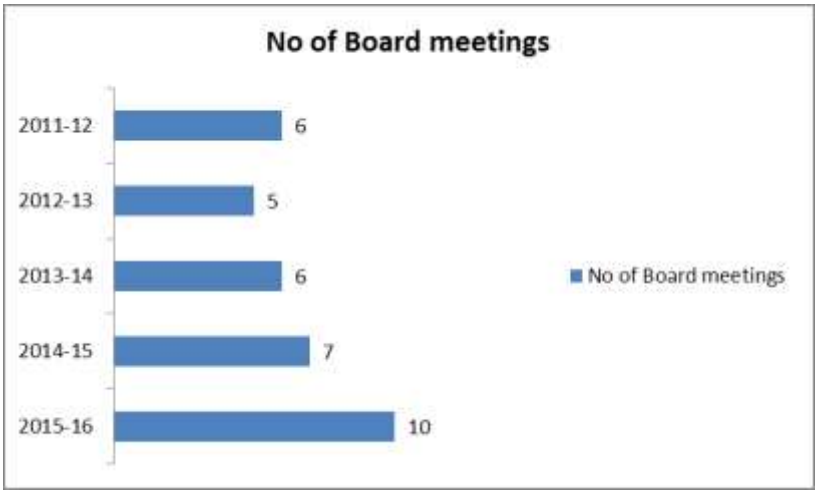


Chart 5.39: Number of Board meetings held in ICICI

The board of ICICI on average is holding five to ten board meeting every year from 2011-12 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee.

Table 5.38: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of ICICI

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	4	4	4	4	4	3	3	3	3	3	7	7	6	6	5
No. of ID	4	4	4	4	4	3	3	3	3	3	5	5	5	5	4
No of ED	0	0	0	0	0	0	0	0	0	0	1	1	1	1	1
No. of meetings	8	6	6	8	7	8	5	5	3	5	7	6	6	7	6

Audit Committee

In case of ICICI, the number of audit committee meetings held was on average six to eight per year.

Remuneration Committee

In case of ICICI the Remuneration Committee consists of only non executive directors and half of them are independent directors for the period 2011-12 to 2015-16, thereby complying with the mandatory requirements.

Risk Management Committee

ICICI has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average six to seven meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Table 5.39: Stakeholders Relationship Committee and CSR Committee of ICICI

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	3	3	3	3	3	4	4	4	4	4
No. of ID	2	2	2	2	2	2	2	3	3	3
No of ED	1	1	1	1	1	1	1	1	1	1
No. of meetings	4	4	4	4	4	3	3	2	2	2

Stakeholder Relationship Committee

In case of ICICI, the committees has been constituted as per the mandatory requirement and on average have held four meetings per year from 2012-13 to 2015-16.

CSR Committee

As per the provisions of the Sec 135 of the Companies Act, 2013, the CSR committee was formed by the board of ICICI from 2011-12 to 2015-16.

Karnataka Bank Ltd. (KB)

Karnataka Bank was incorporated on 18 February 1924, and commenced business on 23 May 1924. Its founders established it at Mangalore, a coastal town in the Dakshina Kannada district of Karnataka.

The Bank's Philosophy on Code of Governance

The basic philosophy of Corporate Governance in the Bank is the application of the best management practices that provide stability and growth to the enterprise, transparency, accountability, disclosures and value creation. Bank believes that good governance practices ultimately secure the goal of turning the Bank into a value driven organization. Bank's philosophy of Corporate Governance has been embedded in its Mission statement which reads as under:

"To be a technology savvy, customer centric progressive Bank with a national presence, driven by the highest standards of Corporate Governance and guided by sound ethical values".

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.40.*

Table 5.40: Board Structure, Strength and Size of KB

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	12	10	10	11	11
Non-Executive (excluding Chairman)	9	9	9	10	10
Independent Non Executive	9	9	9	10	10
Women Non-Executive	1	1	1	0	0
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	2	0	0	0	0
Women Executive	0	0	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	13	16	14	15	14
Is the Chairman Executive?	YES	YES	YES	YES	YES

Board Structure, Strength and Size

The composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949 and Clause 49 of the Listing Agreement.

Composition of the Board

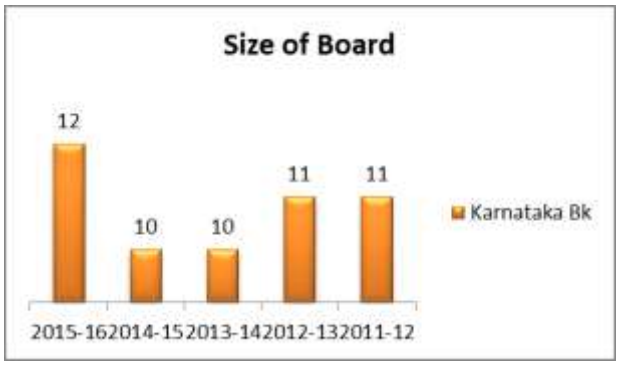


Chart 5.40: Number of Board Members of KB

The Board of KB on average consists of 10 to12 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

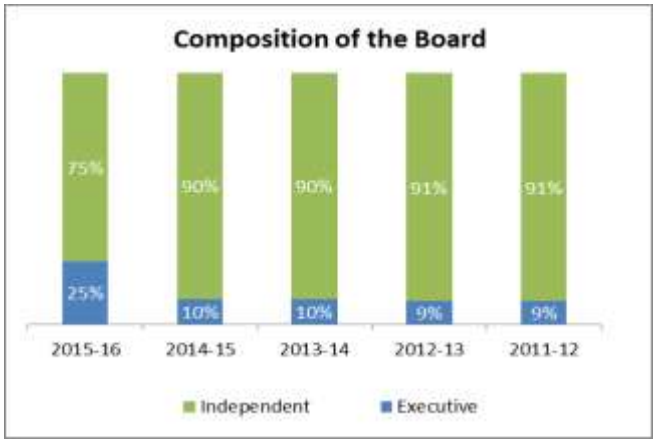


Chart 5.41: Distribution of Executive, Non-executive and Independent Board Members of KB

The percentage of non executive directors in the board of KB range from 75% to 91 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of KB is having one woman director on its board from 2013-14 to 2015-16 .

Board Meetings

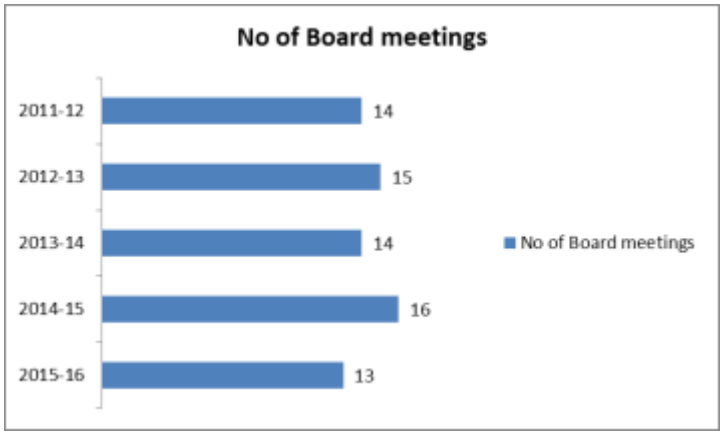


Chart 5.42: Number of Board meetings held in KB

The board of KB on average is holding thirteen to sixteen board meetings every year from 2011-12 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee.

Table 5.41: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of KB

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	4	5	5	5	4	5	5	6	5	4	4	4	6	5	5
No. of ID	4	5	5	5	3	5	5	6	4	3	4	4	5	4	4
No of ED	0	0	0	0	1	0	0	0	1	1	0	0	1	1	1
No. of meetings	8	10	9	10	8	2	5	1	1	2	4	4	4	4	6

Audit Committee

In case of KB, the number of audit committee meetings held was on average eight to ten per year.

Remuneration Committee

In case of KB the Remuneration Committee consists of only non executive directors for the period 2011-12 to 2015-16 excepting in the year 2012-13 and 2011-12.

Risk Management Committee

KB has complied with these requirements from 2011-12 to 2015-16, which is clearly evident from the fact that on average four to six meetings of the committee were held annually and the composition of the committee for all the years is such that , it can effectively gauge the risk inherent in operations and external risks.

Table 5.42: Stakeholders Relationship Committee and CSR Committee of KB

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	3	3	4	3	3	3	3	NA	NA	NA
No. of ID	3	3	3	2	2	2	2	NA	NA	NA
No of ED	0	0	1	1	1	1	1	NA	NA	NA
No. of meetings	2	2	2	2	2	2	2	NA	NA	NA

Stakeholder Relationship Committee

In case of KB, the committee has been constituted as per the mandatory requirement and on average has held two meetings per year from 2011-12 to 2015-16.

CSR Committee

As per the provisions of the Sec 135 of the Companies Act, 2013, the CSR committee was formed by the board of KB from 2014-15.

Kotak Mahindra Bank Ltd. (KMBL)

Established in 1985 by Uday Kotak, is an Indian financial services conglomerate. In February 2003, Kotak Mahindra Finance Ltd. (KMFL), the Group's flagship company, received a banking license from the Reserve Bank of India (RBI). With this, KMFL became the first non-banking finance company in India to be converted into a bank.

The Bank's Philosophy on Code of Governance

The Bank believes in adopting and adhering to the best standards of corporate governance to all the stakeholders. The Bank's corporate governance is, therefore based on the following principles

- Appropriate composition, size of the Board and commitment to adequately discharge its responsibilities and duties.
- Transparency and independence in the functions of the Board.
- Independent verification and assured integrity of financial reporting.
- Adequate risk management and Internal Control.
- Protection of shareholders' rights and priority for investor relations.
- Timely and accurate disclosure on all matters concerning operations and performance of the Bank.

The Bank's philosophy on corporate governance enshrines the goal of achieving the highest levels of transparency, accountability and equity in all spheres of its operations and in all its dealing with the shareholders, employees, the government and other parties. The Bank understands and respects its fiduciary role and responsibility to shareholders.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.43*.

Board Structure, Strength and Size

The Bank has a broad-based Board of Directors, constituted in compliance with the Banking Regulation Act, 1949, the Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and in accordance with good corporate governance practices.

Table 5.43: Board Structure, Strength and Size of KMBL

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	11	10	9	9	9
Non-Executive (excluding Chairman)	7	6	5	5	5
Independent Non Executive	8	7	6	6	6
Women Non-Executive	1	1	0	0	0
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	3	3	4	4	4
Women Executive	0	0	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	8	10	6	6	6
Is the Chairman Executive?	NO	NO	NO	NO	NO

Composition of the Board

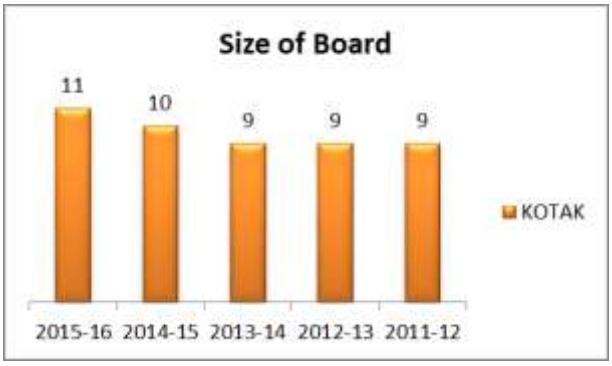


Chart 5.43: Number of Board Members of KMBL

The Board of KMBL on average consists of 9 to11 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

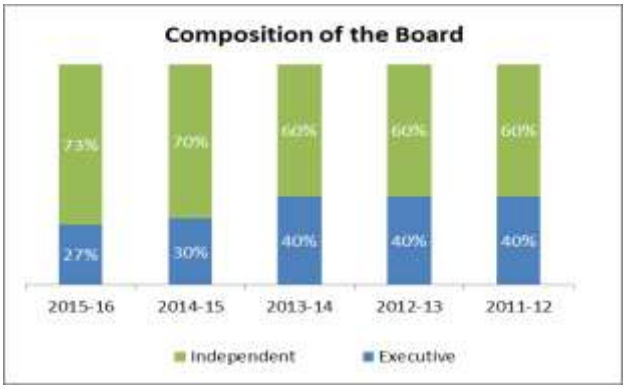


Chart 5.44: Distribution of Executive, Non-executive and Independent Board Members of KMBL

The percentage of non executive directors in the board of KMBL range from 60% to 73 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

Accordingly The Board of KMBL is having one woman director on its board from 2014-15 to 2015-16 .

Board Meetings

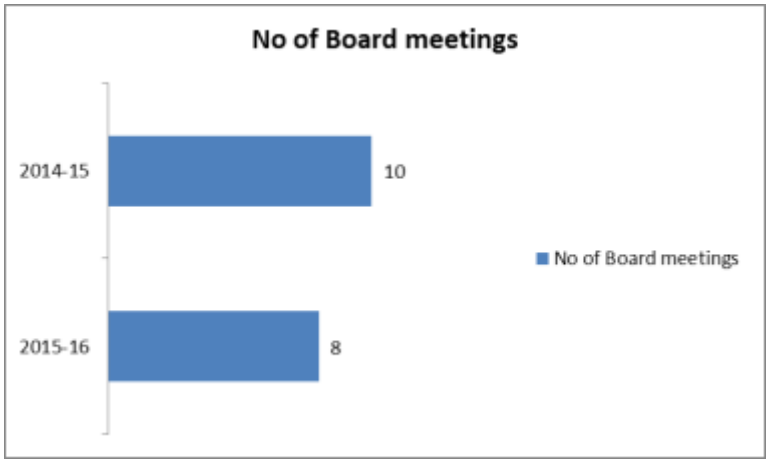


Chart 5.45: Number of Board meetings held in KMBL

The board of KMBL on average is holding six to ten board meetings every year from 2011-12 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee.

Table 5.44: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Central Board of KMBL

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	3	3	3	3	3	3	3	3	4	4	4	4	4	0	0
No. of ID	3	3	3	3	3	3	3	3	4	4	2	2	2	0	0
No of ED	0	0	0	0	0	0	0	0	0	0	2	2	2	0	0
No. of meetings	9	10	8	8	9	23	4	1	2	1	3	4	0	0	0

Audit Committee

In case of KMBL, the number of audit committee meetings held was on average eight to ten per year.

Remuneration Committee

In case of KMBL the Remuneration Committee consists of only non executive directors for the period 2011-12 to 2015-16.

Risk Management Committee

KMBL had no meetings of risk management committee in the years 2011-12 to 2013-2014, however had three meetings in 2014-15 and four meetings in 2015-16.

Table 5.45: Stakeholders Relationship Committee and CSR Committee of KMBL

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	4	4	4	4	4	3	3	3	0	0
No. of ID	2	2	2	2	1	2	2	2	0	0
No of ED	2	2	2	2	3	1	1	1	0	0
No. of meetings	3	4	3	1	3	1	2	0	0	0

Stakeholder Relationship Committee

In case of KMBL, the committee has been constituted as per the mandatory requirement and on average have held one to four meetings per year from 2011-12 to 2015-16.

CSR Committee

As per the provisions of the Sec 135 of the Companies Act, 2013, the CSR committee was formed by the board of KMBL from 2013-14.

Lakhsmi Vilas Bank Ltd. (LVBL)

LVBL was founded in 1926 by a group of seven businessmen of Karur under the leadership of Shri V.S.N. Ramalinga Chettiar. Their objective was to cater to the financial needs of people in and around Karur who were occupied in trading businesses, industry and agriculture. The bank was incorporated on November 3, 1926 under the Indian Companies Act, 1913, and obtained the certificate to commence business on November 10, 1926.

The Bank's Philosophy on Code of Governance

Corporate Governance of the Bank continues to rest on the fundamental pillar of high ethical values, designed to enhance and protect the interests of all the stakeholders.

Board of Directors/ Board Issues

The various aspects of the Board of Directors Viz. board structure, board strength and size, board diversity and number of board meetings and few other relevant particulars are examined in the following paragraphs and presented in *Table 5.46.*

Table 5.46: Board Structure, Strength and Size of LVBL

Particulars	2015-16	2014-15	2013-14	2012-13	2011-12
Total No. of Directors	12	12	14	13	11
Non-Executive (excluding Chairman)	11	11	12	11	10
Independent Non Executive	6	6	7	6	5
Women Non-Executive	1	1	0	0	0
Foreign Non Executive	0	0	0	0	0
Executive (excluding Chairman)	0	0	1	1	0
Women Executive	0	0	0	0	0
Foreign Executive	0	0	0	0	0
No. of Board meetings	12	14	18	15	11
Is the Chairman Executive?	YES	YES	NO	NO	YES

Board Structure, Strength and Size

The composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949 and Clause 49 of the Listing Agreement.

Composition of the Board

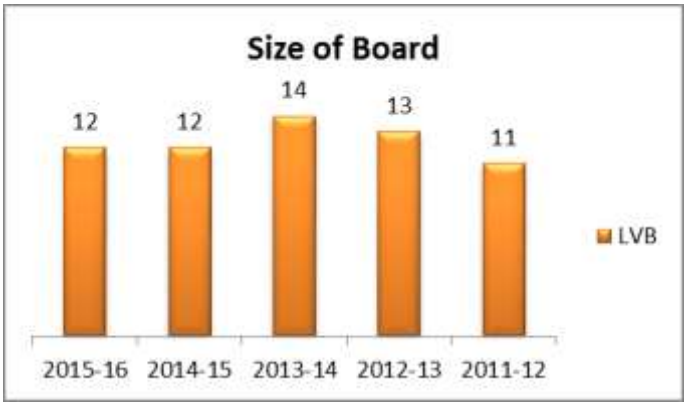


Chart 5.46: Number of Board Members of LVBL

The Board of LVBL on average consists of 11 to14 members, which is in line with the Sec. 149 (1) of the Companies Act, 2013.

Distribution of the Board

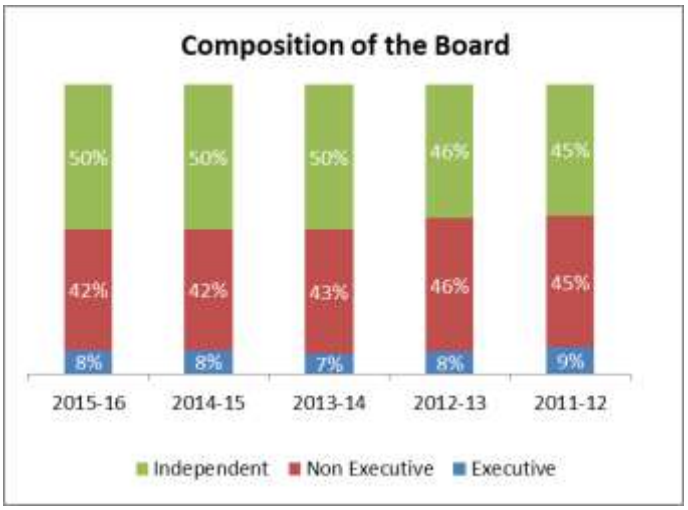


Chart 5.47: Distribution of Executive, Non-executive and Independent Board Members of LVBL

The percentage of non executive directors in the board of LVBL range from 91% to 93 % during 2011-12 to 2015-16 which is in accordance with Sec. 149 (4).

Women Participation in the Board

The Board of LVBL is having one woman director on its board from 2014-15 to 2015-16 .

Board Meetings

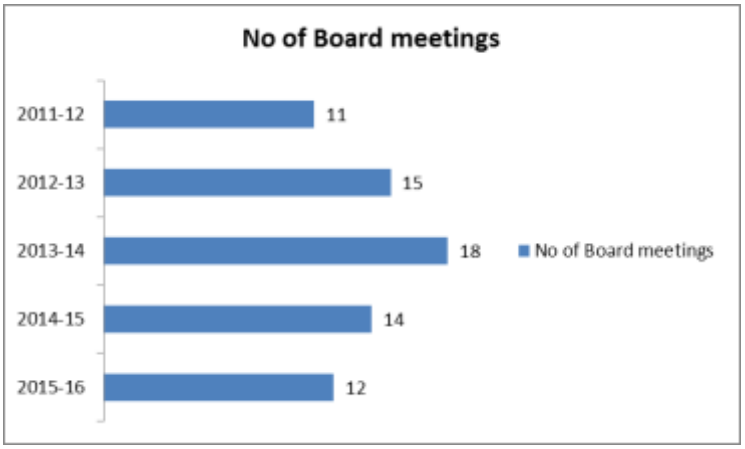


Chart 5.48: Number of Board meetings held in LVBL

The board of LVBL on average is holding eleven to eighteen board meetings every year from 2011-12 to 2015-16.

Committees of the Board

For the efficient discharge of duties entrusted to the board, the board is empowered to set up various committees of the board members itself viz. the Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, Stakeholders Relationship Committee and CSR Committee.

Table 5.47: Audit Committee, Nomination and Remuneration Committee and Risk Management Committee of Board of LVBL

Particulars	Audit Committee					Nomination and Remuneration Committee					Risk management Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	12	12	14	13	11	4	6	6	NA	NA	6	5	8	6	7
No. of ID	11	11	12	11	10	3	3	3	NA	NA	2	2	4	3	1
No of ED	6	6	7	6	5	0	1	0	NA	NA	2	1	0	2	1
No. of meetings	1	1	0	0	0	5	5	6	NA	NA	4	4	3	4	5

Audit Committee

In case of LVBL, the number of audit committee meetings held was one in the years 2014-15 and 2015-16. In the years 2011-2 to 2013-14 , no meetings were held.

Remuneration Committee

In case of LVBL the Remuneration Committee consists of only non executive directors in the years 2013-14 and 2015-16.

Risk Management Committee

LVBL had three too five meetings of risk management committee during the period 2011-12 to 2015-16.

Table 5.48: Stakeholders Relationship Committee and CSR Committee of LVBL

Particulars	Stakeholders Relationship Committee					CSR Committee				
	2015-16	2014-15	2013-14	2012-13	2011-12	2015-16	2014-15	2013-14	2012-13	2011-12
No. of members	5	3	4	5	5	5	1	2	4	5
No. of ID	2	1	2	2	1	3	1	1	2	3
No of ED	0	0	0	0	0	NA	NA	NA	NA	NA
No. of meetings	3	4	4	3	4	NA	NA	NA	NA	NA

Stakeholder Relationship Committee

In case of LVBL, the committee has been constituted as per the mandatory requirement and on average has held three to four meetings per year from 2011-12 to 2015-16.

CSR Committee

As per the provisions of the Sec 135 of the Companies Act, 2013, the CSR committee was formed by the board of LVBL from 2011-12.

SECTION-II:

CORPORATE GOVERNANCE INDEX

We have used the CG index (refer 4.D) for calculating the index score of all the sample FIs. For representing the scores, we have divided the sample FIs into four sub groups i.e public sector banks and private sector banks. The scores and related analysis is presented in the following paragraphs.

Table 5.49: CG Index of Public Sector Banks

Sl. No.	Bank	2015-16	2014-15	2013-14	2012-13	2011-12
1.	SBI	96	96	96	96	96
2.	PNB	92	92	90	92	92
3.	BOB	92	90	88	90	90
4.	UBI	92	92	92	92	92
5.	CBI	86	86	86	84	84
6.	PSB	92	92	90	88	88
7.	SBM	75	73	59	79	79
8.	DB	92	92	92	90	90

Table 5.50: CG Index of Private Banks

Sl. No.	Bank	2015-16	2014-15	2013-14	2012-13	2011-12
1.	ICICI	92	92	88	92	92
2.	AXIS	96	96	92	90	90
3.	KOTAK	94	94	86	80	80
4.	HDFC	90	90	90	90	88
5.	KARNATAKA	96	96	94	92	75
6.	DCB	92	90	88	88	86
7.	DB	94	86	86	86	86
8.	LVB	94	88	57	57	57

Table 5.49 and 5.50 indicate that the CG of public and private sector banks is gradually increasing during the sample period. The CG scores of the banks having large capital are relatively stable over the period of time and not much variation is seen. This can be explained by the fact that large banks have well established internal control mechanisms and there prevail a regulatory oversight from multiple agencies on these banks. The banks having highest market capitalization such as SBI, PNB, BOB and UBI consistently show higher CG scores with least variation. Whereas, the banks having low market capitalization are showing lower CG scores and greater degree of variation. One of the reasons for overall increase in CG index after 2012-13 has been the promulgation of the Companies Act, 2013 which had made certain parameters of the present CG index as mandatory.

In the private sector banks , the banks having low capital base are having low CG index as compared to the banks having high capitalization. Apart from capitalization the spread of the

bank branches seems to have an influence on the CG scores. The banks having a pan-India presence score high on CG index as compared to banks concentrated in few regions. Although few of the private sector banks which are very old as compared to new private sector banks have low CG scores which may be due to small scale of operations and less requirement of fresh capital. The CG scores of the private sector banks have changed towards the upper side after 2012-13 partly due to the promulgation of the Companies Act, 2013 which has made certain parameters of the present CG index as mandatory.

Most of the banks in India require recapitalization in order to follow Basel III norms; recapitalization involves rising of funds from various domestic and foreign sources, for whom the CG parameters are of paramount importance. The decision to invest funds depends heavily on CG apart from other factors. In view of this the banks put utmost effort to meet the mandatory requirements of CG and also try to fulfill non mandatory requirements so as to reflect transparency in its operations.

The CG in public and private sector banks is enforced through board and various committees of the board. The selection to the board and committees is governed in a manner which is semi rigid as a consequence the management is not able to influence the functioning of the board and committees. Thereby preserving the independence of the board and committees from the executive which results in higher CG score.

SECTION-III:

CORPORATE GOVERNANCE AND FINANCIAL INSTITUTION'S PERFORMANCE

In order to examine the role of Corporate Governance in banks performance we have taken a sample of 16 banks based on highest and lowest market capitalization among the strata of private sector bank and public sector banks. The data pertains to period 2011-12 to 2015-16. The underlying reason for chasing this time period is that around this time.

Table 5.51: Independent Variable

Variable	Measurement				
	Observations	Minimum	Maximum	Mean	Std. deviation
ROA	80	0.020	2.020	0.977	0.573
CG Index	80	57.000	96.000	87.938	8.575
Volatility	80	3.750	32.490	13.875	5.645
Return on advances adjusted cost of funds	80	2.370	6.599	4.001	0.860
Return on Investments adjusted cost of funds	80	0.003	4.027	0.992	0.888
average dividend yield	80	0.000	4.500	1.533	1.285
average p/b	80	0.300	3.900	1.273	0.961
dividend payout	80	0.000	36.400	13.923	9.858
% of total assets	80	0.096	17.432	3.092	4.058
%of advances outside India	80	0.000	31.816	6.602	10.063
growth in assets	80	-13.161	81.357	13.573	11.391
% of borrowings outside India	80	0.000	79.285	27.254	26.134
%Increase in income	80	-7.481	61.695	16.449	12.587
% of total banking profit	80	-15.800	36.008	3.867	7.821
Ratio of demand and savings deposits to total deposits	80	14.226	48.400	32.700	9.189
net NPA To net advances	80	0.180	9.040	2.339	1.913
deposits to total liability	80	52.242	91.100	80.310	9.449
CAR	80	7.510	18.830	13.104	2.518
debt/equity ratio	80	450.000	2590.000	1386.488	472.847

We have formulated a regression equation to analyse the impact and correlation of corporate governance with above mentioned financial performance measure taken as dependent variables.

RESULTS

Summary Statistics: The tables of descriptive statistics show the simple statistics for all the variables selected. The number of observations, the mean and the standard deviation (unbiased) are displayed for the dependent variables and the quantitative explanatory variables. For qualitative explanatory variables the names of the various categories are displayed together with their respective frequencies.

Correlation Matrix: This table is displayed to give a view of the correlations between the various variables selected.

Summary of the Variables Selection: For a stepwise selection, the statistics corresponding to the different steps are displayed. Where the best model for a number of variables varying from p to q has been selected, the best model for each number or variables is displayed with the corresponding statistics.

Goodness of Fit Statistics: The statistics relating to the fitting of the regression model are shown in this table:

- **Observations**: The number of observations used in the calculations.
- **Sum of weights**: The sum of the weights of the observations used in the calculations.
- **DF**: The number of degrees of freedom for the chosen model (corresponding to the error part).
- **R^2**: The determination coefficient for the model. This coefficient, whose value is between 0 and 1.

The R^2 is interpreted as the proportion of the variability of the dependent variable explained by the model. The nearer R^2 is to 1, the better is the model. The drawback with the R^2 is that it does not take into account the number of variables used to fit the model.

Adjusted R^2: The adjusted determination coefficient for the model. The adjusted R^2 can be negative if the R^2 is near to zero. The adjusted R^2 is a correction to the R^2 and takes into account the number of variables used in the model.

- **MSE**: The mean squared error (MSE)
- **RMSE**: The root mean square of the errors (RMSE) is the square root of the MSE.
- **MAPE**: The *Mean Absolute Percentage Error*
- **DW**: The Durbin-Watson statistic: This coefficient is the order 1 autocorrelation coefficient and is used to check that the residuals of the model are not auto correlated. Given that the independence of the residuals is one of the basic hypotheses of linear regression.
- **Cp**: Mallows Cp coefficient is the estimator of the variance of the residuals for the model comprising all the explanatory variables. The nearer the Cp coefficient is to p* the number of explanatory variables; the less the model is biased.
- **AIC**: Akaike's Information Criterion proposed by Akaike (1973) is derived from the information theory and uses Kullback and Leibler's measurement (1951). It is a model selection criterion which penalizes models for which adding new explanatory variables does not supply sufficient information to the model, the information being measured through the MSE. The aim is to minimize the AIC criterion.
- **SBC**: Schwarz's Bayesian Criterion Schwarz (1978) is similar to the AIC, and the aim is to minimize it.
- **PC**: Amemiya's Prediction Criterion, this criterion, proposed by Amemiya (1980) is used, like the adjusted R^2 to take account of the parsimony of the model.
- **Press**: The Press (predicted residual error sum of squares) and the Press RMSE . A large difference between the two shows that the model is sensitive to the presence or absence of certain observations in the model.
- **Q^2**: This statistic, also known as the cross-validated R.

This gives the proportion of the total variance that is explained by the explanatory variables when the predictions are computed when the corresponding observation is not in the model. A

large difference between the Q^2 and the R^2 shows that the model is sensitive to the presence or absence of certain observations in the model.

The **analysis of variance table** is used to evaluate the explanatory power of the explanatory variables. Where the constant of the model is not set to a given value, the explanatory power is evaluated by comparing the fit (as regards least squares) of the final model with the fit of the rudimentary model including only a constant equal to the mean of the dependent variable. Where the constant of the model is set, the comparison is made with respect to the model for which the dependent variable is equal to the constant which has been set.

The table of **Type III SS** values is used to visualize the influence that removing an explanatory variable has on the fitting of the model, all other variables being retained, expect those were the effect is present (interactions), as regards the sum of the squares of the errors (SSE), the mean squared error (MSE), Fisher's F, or the probability associated with Fisher's F. The lower the probability, the larger the contribution of the variable to the model, all the other variables already being in the model.

The **parameters of the model** are displayed in the coefficients table. It displays the estimate of the parameters, the corresponding standard error, the Student's t, the corresponding probability, as well as the correlations and co linearity statistics.

The **equation of the model** is then displayed to make it easier to read or re-use the model.

The table of **standardized coefficients** (also called beta coefficients) are used to compare the relative weights of the variables. The higher the absolute value of a coefficient, the more important the weight of the corresponding variable.

The **charts** displayed next show respectively the evolution of the standardized residuals as a function of the dependent variable, the distance between the predictions and the observations. The next chart quickly shows if an abnormal number of values are outside the interval]-2, 2[given that the latter, assuming that the sample is normally distributed, should contain about 95% of the data.

Predicted Values. Values that the regression model predicts for each case.

- *Unstandardized*. The value the model predicts for the dependent variable.
- *Standardized*. A transformation of each predicted value into its standardized form. That is, the mean predicted value is subtracted from the predicted value, and the difference is divided by the standard deviation of the predicted values. Standardized predicted values have a mean of 0 and a standard deviation of 1.
- *Adjusted*. The predicted value for a case when that case is excluded from the calculation of the regression coefficients.
- *S.E. of mean predictions*. Standard errors of the predicted values. An estimate of the standard deviation of the average value of the dependent variable for cases that have the same values of the independent variables.

Distances. Measures to identify cases with unusual combinations of values for the independent variables and cases that may have a large impact on the regression model.

- *Mahalanobis*. A measure of how much a case's values on the independent variables differ from the average of all cases. A large Mahalanobis distance identifies a case as having extreme values on one or more of the independent variables.
- *Cook's*. A measure of how much the residuals of all cases would change if a particular case were excluded from the calculation of the regression coefficients. A large Cook's D

indicates that excluding a case from computation of the regression statistics changes the coefficients substantially.

- *Leverage values*. Measures the influence of a point on the fit of the regression. The centered leverage ranges from 0 (no influence on the fit) to (N-1)/N.

Prediction Intervals. The upper and lower bounds for both mean and individual prediction intervals.

- *Mean*. Lower and upper bounds (two variables) for the prediction interval of the mean predicted response.
- *Individual*. Lower and upper bounds (two variables) for the prediction interval of the dependent variable for a single case.
- *Confidence Interval*. Enter a value between 1 and 99.99 to specify the confidence level for the two Prediction Intervals. Mean or Individual must be selected before entering this value. Typical confidence interval values are 90, 95, and 99.

Residuals. The actual value of the dependent variable minus the value predicted by the regression equation.

- *Unstandardized*. The difference between an observed value and the value predicted by the model.
- *Standardized*. The residual divided by an estimate of its standard deviation. Standardized residuals, which are also known as Pearson residuals, have a mean of 0 and a standard deviation of 1.
- *Studentized*. The residual divided by an estimate of its standard deviation that varies from case to case, depending on the distance of each case's values on the independent variables from the means of the independent variables.
- *Deleted*. The residual for a case when that case is excluded from the calculation of the regression coefficients. It is the difference between the value of the dependent variable and the adjusted predicted value.
- *Studentized deleted*. The deleted residual for a case divided by its standard error. The difference between a Studentized deleted residual and its associated Studentized residual indicates how much difference eliminating a case makes on its own prediction.

Influence Statistics. The change in the regression coefficients (DfBeta[s]) and predicted values (DfFit) that results from the exclusion of a particular case. Standardized DfBetas and DfFit values.

- *DfFit*. The difference in fit value is the change in the predicted value that results from the exclusion of a particular case.
- *Standardized DfFit*. Standardized difference in fit value. The change in the predicted value that results from the exclusion of a particular case. You may want to examine standardized values which in absolute value exceed 2 times the square root of p/N, where p is the number of parameters in the model and N is the number of cases.

Coefficient Statistics.

Partial Correlation. The correlation that remains between two variables after removing the correlation that is due to their mutual association with the other variables. The correlation between the dependent variable and an independent variable when the linear effects of the other independent variables in the model have been removed from both.

Part Correlation. The correlation between the dependent variable and an independent variable when the linear effects of the other independent variables in the model have been removed from the independent variable. It is related to the change in R-squared when a variable is added to an equation. Sometimes called the semi-partial correlation.

EMPIRICAL RESULTS

Our analysis include four regressions with four different proxies for banks financial performance (ROE, ROA, Price/earning ratio, and investment return).The basic objective is to find the impact of corporate governance on the banks performance. In the following tables we analyse the estimated regression equations.

Table 5.52: Summary of Variable Selection for ROA

No. of variables	Variables	MSE	R^2	Adjusted R^2	Mallows' Cp	Akaike's AIC	Schwarz's SBC	Amemiya's PC
1	avg p/b	0.144	0.566	0.560	59.436	-152.908	-148.144	0.445
2	R adv adj cof / %of advan outside india	0.122	0.637	0.628	39.035	-165.372	-158.225	0.381
3	R adv adj cof / % of total assets / % of borrowings outside India	0.104	0.695	0.683	23.045	-177.239	-167.711	0.328
4	CG Index / R adv adj cof / % of total assets / % of borrowings outside India	0.097	0.720	0.705	17.266	-182.071	-170.161	0.309
5	CG Index / R adv adj cof / % of total assets / % of borrowings outside India / depos to total liabi	0.091	0.741	0.723	12.763	-186.266	-171.973	0.293
6	CG Index / R adv adj cof / % of total assets / growth in assets / % of borrowings outside India / depos to total liabi	0.089	0.750	0.730	11.783	-187.274	-170.599	0.289
7	CG Index / R adv adj cof / % of total assets / growth in assets / % of borrowings outside India / net NPA To net advances / depos to total liabi	0.085	0.763	0.740	10.002	-189.260	-170.204	0.282
8	CG Index / R adv adj cof / divid payout / % of total assets / growth in assets / % of borrowings outside India / net NPA To net advances / depos to total liabi	0.084	0.771	0.745	9.421	-190.100	-168.662	0.279
9	CG Index / R adv adj cof / divid payout / % of total assets / growth in assets / % of borrowings outside India / % of total banking profit / net NPA To net advances / depos to total liabi	0.083	0.775	0.746	10.183	-189.499	-165.679	0.281
10	CG Index / R adv adj cof / avg divid yield / avg p/b / divid payout / % of total assets / growth in assets / % of borrowings outside India / net NPA To net advances / depos to total liabi	0.082	0.781	0.749	10.316	-189.655	-163.453	0.281
11	CG Index / R adv adj cof / avg divid yield / avg p/b / divid payout / % of total assets / growth in assets / % of borrowings outside India / net NPA To net advances / depos to total liabi / CAR	0.081	0.787	0.753	10.385	-189.950	-161.365	0.280
12	CG Index / Volatility / R adv adj cof / avg divid yield / avg p/b / divid payout / % of total assets / growth in assets / % of borrowings outside India / % of total banking profit / Ratio of dem & savs deposits to tot depo / depos to total liabi	0.081	0.791	0.754	11.015	-189.617	-158.651	0.281
13	CG Index / R adv adj cof / avg divid yield / avg p/b / divid payout / % of total assets / %of advan outside india / growth in assets / % of borrowings outside India / % of total banking profit / net NPA To net advances / depos to total liabi / CAR	0.080	0.797	**0.757**	11.311	-189.742	-156.394	0.281
14	CG Index / Volatility / R adv adj cof / avg divid yield / avg p/b / divid payout / % of total assets / %of advan outside india / growth in assets / % of borrowings outside India / % of total banking profit / net NPA To net advances / depos to total liabi / CAR	0.080	0.800	0.757	12.372	-188.938	-153.208	0.284

Table 5.53: Goodness of Fit Statistics

Observations	80.000
Sum of weights	80.000
DF	66.000
R^2	0.797
Adjusted R^2	0.757
MSE	0.080
RMSE	0.282
MAPE	87.107
DW	1.974
Cp	11.311
AIC	-189.742

SBC	-156.394
PC	0.289
Press	8.007
Q^2	0.691

Table 5.54: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df 1	df 2	Sig. F Change	
1	.893[a]	.797	.757	.28232274700000	.797	19.923	13	66	.000	1.974

a. Predictors: (Constant), average dividend yield, % of total assets , growth in assets, CG Index, CAR, % of total banking profit, Return on advances adjusted cost of funds, net NPA To net advances, dividend payout, %of advances an outside India, deposits to total liability, average p/b, % of borrowings outside India

b. Dependent Variable: ROA

Table 5.55: ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.	
1	Regression	20.643	13	1.588	19.923	.000[b]
	Residual	5.261	66	.080		
	Total	25.904	79			

Dependent Variable: ROA

Table 5.56: Type III Sum of Squares Analysis (ROA)

Source	**DF**	**Sum of squares**	**Mean squares**	**F**	**Pr > F**
CG Index	1	0.228	0.228	2.855	0.096
Volatility	0	0.000			
Return on advances adjusted cost of funds	1	0.768	0.768	9.639	**0.003**
Return on Investments adjusted cost of funds	0	0.000			
average dividend yield	1	0.222	0.222	2.786	0.100
average p/b	1	0.343	0.343	4.307	**0.042**
dividend payout	1	0.474	0.474	5.947	**0.017**
% of total assets	1	1.046	1.046	13.11	**0.001**
%of advances outside India	1	0.178	0.178	2.229	0.140
growth in assets	1	0.594	0.594	7.455	**0.008**
% of borrowings outside India	1	0.248	0.248	3.113	0.082
%Increase in income	0	0.000			
% of total banking profit	1	0.150	0.150	1.887	0.174
Ratio of demand and savings deposits to total deposits	0	0.000			
net NPA To net advances	1	0.242	0.242	3.032	0.086
deposits to total liability	1	0.422	0.422	5.289	**0.025**
CAR	1	0.207	0.207	2.592	0.112
debt/equity ratio	0	0.000			

Interpretation

I. Return on Assets (ROA)

Using the Best model variables selection method, 13 variables have been retained in the model.

Given the R2, 80% of the variability of the dependent variable ROA is explained by the 13 explanatory variables.

Given the p-value of the F statistic computed in the ANOVA table, and given the significance level of 5%, the information brought by the explanatory variables is significantly better than what a basic mean would bring.

Based on the Type III sum of squares, the following variables bring significant information to explain the variability of the dependent variable ROA: Return on advances adjusted to cost of funds, average p/b value, dividend payout,% of total assets, growth in assets, deposit to total liabilities.

Based on the Type III sum of squares, the following variables do not bring significant information to explain the variability the dependent variable ROA: CG Index, average dividend yield, %of advances outside India, % of borrowings outside India,% of total banking profit, net NPA To net advances CAR.

Among the explanatory variables, based on the Type III sum of squares, variable Volatility is the most influential.

Table 5.57: Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Correlations			Co linearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	1.115	1.070				-1.022	3.252					
CG Index	.007	.004	.112	1.690	.096	-.001	.016	.211	.204	.094	.706	1.416
Return on advances adjusted cost of funds	.269	.087	.404	3.105	.003	.096	.442	.637	.357	.172	.182	5.501
average p/b	.199	.096	.335	2.075	.042	.008	.391	.752	.248	.115	.118	8.451
dividend payout	-.016	.007	-.281	-2.439	.017	-.030	-.003	-.096	-.288	-.135	.232	4.304
% of total assets	-.052	.014	-.372	-3.622	.001	-.081	-.024	.066	-.407	-.201	.292	3.422
%of advances outside India	.013	.008	.223	1.493	.140	-.004	.030	.254	.181	.083	.138	7.227
growth in assets	-.010	.004	-.197	-2.730	.008	-.017	-.003	.282	-.319	-.151	.592	1.688
% of borrowings outside India	.007	.004	.312	1.764	.082	-.001	.015	.471	.212	.098	.099	10.139
% of total banking profit	.009	.007	.123	1.374	.174	-.004	.022	.385	.167	.076	.384	2.603
net NPA To net advances	-.045	.026	-.150	-1.741	.086	-.096	.007	-.555	-.210	-.097	.416	2.402

deposits to total liability	-.016	.007	-.270	-2.300	.025	-.031	-.002	-.664	-.272	-.128	.224	4.474
CAR	-.049	.030	-.215	-1.610	.112	-.109	.012	.668	-.194	-.089	.173	5.772
average dividend yield	.100	.060	.224	1.669	.100	-.020	.220	-.232	.201	.093	.170	5.878

Table 5.58: Co linearity Diagnostics

Collinearity Diagnostics[a]

Dimension	Eigen value	Condition Index	Variance Proportions													
			(Constant)	CG Index	R adv adj cof	avg p/b	divid payout	% of total assets	%of advan outside	growth in assets	% of borrowings outsid	% of total banking	net NPA To net advan	deposto total	CAR	avg divid yield
1	9.939	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2	1.581	2.508	0	0	0	0	0	0.02	0.01	0	0	0.05	0.01	0	0	0
3	0.812	3.499	0	0	0	0.01	0	0.02	0.01	0.06	0	0.02	0.06	0	0	0
4	0.679	3.827	0	0	0	0.01	0.03	0	0	0	0	0	0.02	0	0	0.05
5	0.408	4.934	0	0	0	0	0	0.02	0.08	0.04	0	0.33	0.03	0	0	0
6	0.243	6.395	0	0	0	0.02	0.02	0.17	0.01	0.51	0	0.01	0.01	0	0	0
7	0.142	8.354	0	0	0	0.02	0.01	0.49	0.09	0.14	0	0.44	0.13	0	0	0
8	0.093	10.35	0	0	0	0.05	0.32	0	0	0.1	0	0.05	0.32	0	0	0.05
9	0.043	15.21	0	0	0	0.07	0.18	0.07	0.14	0.04	0.31	0.01	0.29	0	0	0.42
10	0.031	17.8	0	0	0	0.26	0.15	0.19	0.31	0.09	0.64	0.03	0.08	0	0	0.21
11	0.015	26.06	0	0.05	0.1	0.26	0.01	0.02	0.02	0	0.01	0.01	0.04	0.05	0.15	0.01
12	0.009	33.34	0	0.2	0.34	0.01	0	0	0.24	0	0.02	0.03	0	0.03	0.15	0.01
13	0.005	46.3	0	0.54	0.32	0.07	0.09	0.01	0.08	0.01	0.02	0	0	0.15	0.22	0.01
14	0.001	124	0.99	0.21	0.23	0.23	0.18	0	0.03	0	0	0.01	0	0.76	0.47	0.24

a. Dependent Variable: ROA

Table 5.59: Residuals

Residuals Statistics[a]					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.17997659700 0000	2.0407750610 00000	.97650000000 0000	.51118397200 0000	80
Std. Predicted Value	-1.558	2.082	.000	1.000	80
Standard Error of Predicted Value	.058	.219	.115	.029	80
Adjusted Predicted Value	.14551538200 0000	2.0977394580 00000	.97617009900 0000	.52353241500 0000	80
Residual	-.95963048900 0000	.74606192100 0000	.00000000000 0000	.25805025600 0000	80
Std. Residual	-3.399	2.643	.000	.914	80
Stud. Residual	-3.616	2.918	.002	1.009	80
Deleted Residual	-1.0862997770 00000	.90940672200 0000	.00032990058 2000	.31835241900 0000	80
Stud. Deleted Residual	-4.008	3.102	.001	1.043	80
Mahal. Distance	2.355	46.456	12.838	7.231	80
Cook's Distance	.000	.298	.018	.042	80
Centered Leverage Value	.030	.588	.163	.092	80

a. Dependent Variable: ROA

Chart 5.49:

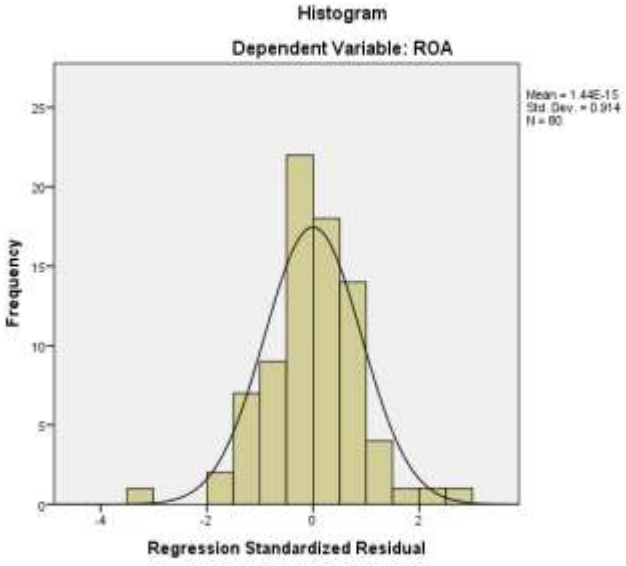


Chart 5.50

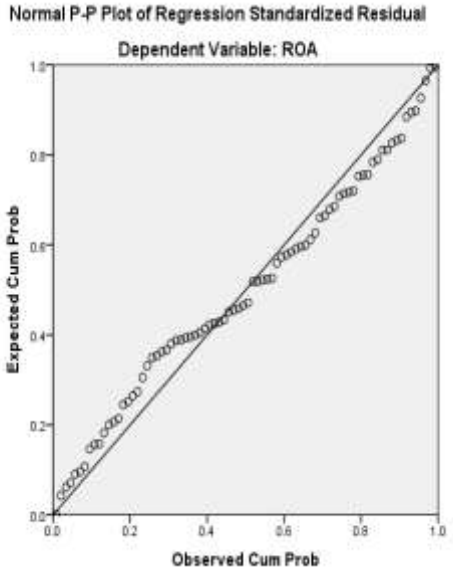


Chart 5.51

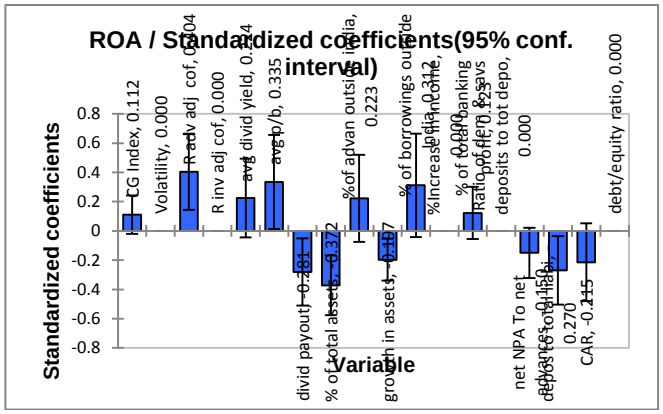


Chart 5.52

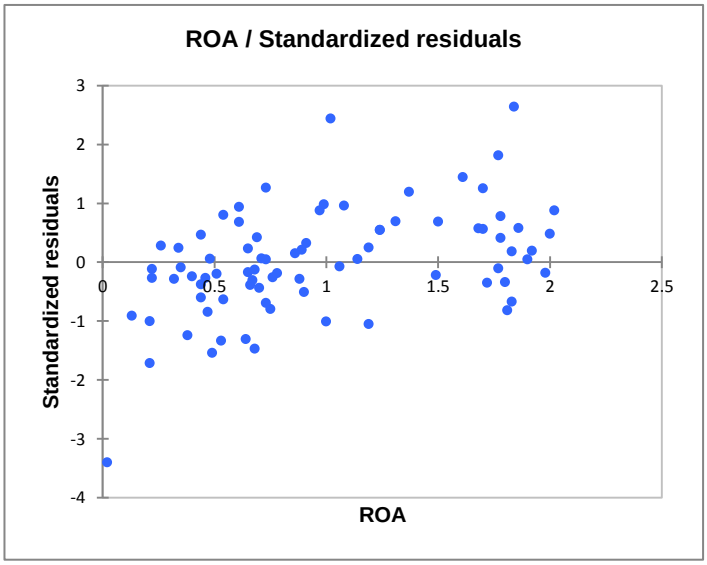


Chart 5.53

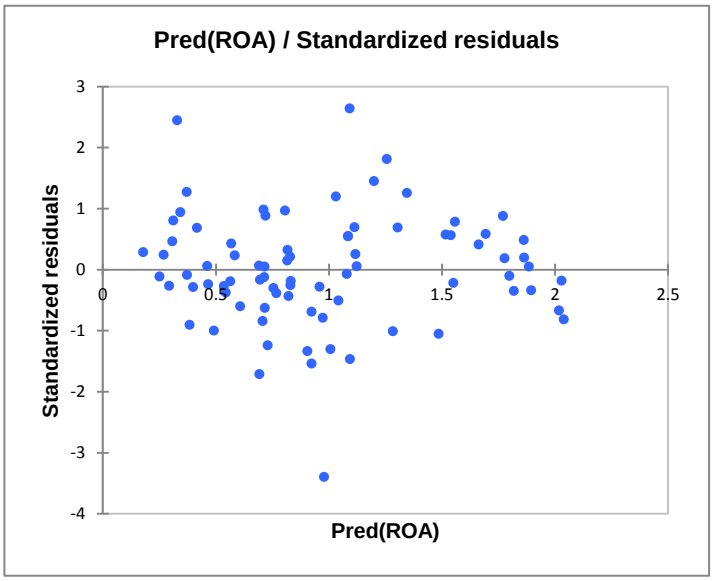


Chart 5.54

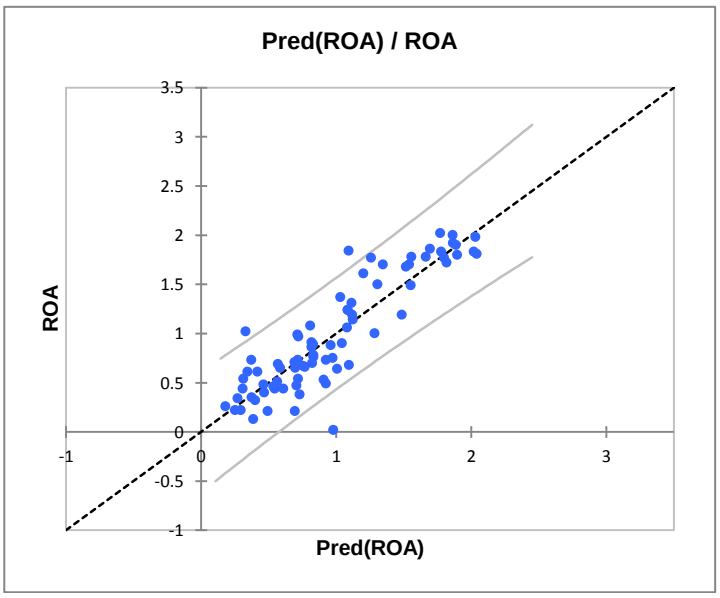


Chart 5.55

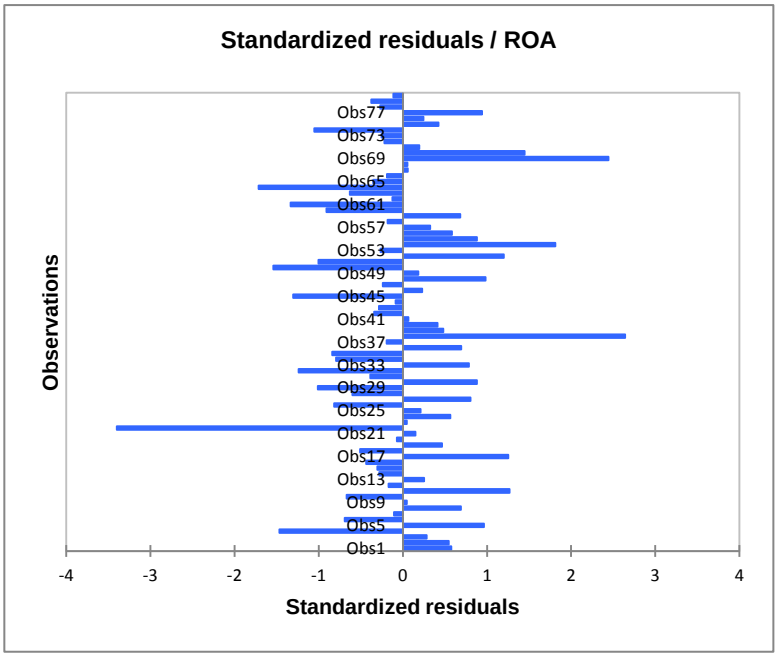
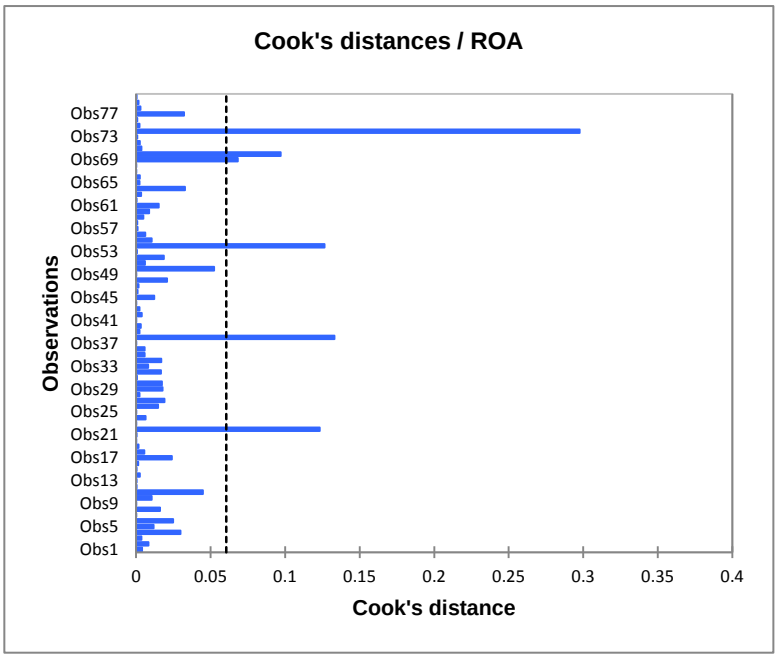


Chart 5.56



To start with we had identified 30 variables which may impact the return on assets, but after running regression process we zeroed on 13 variables which gave the best goodness of fit for the regression equation. The thirteen variables are as given in the table 5.52

Return on Assets = 1.55348187069308+.006*Corporate governance index +.0083*Volatility+0.2773Return on advances adjusted to cost of funds - 0.114*. Return on investments adjusted to cost of funds + 0.113*average dividend yield + 0.2496*average price/book value -0.0174*dividend end payout -.0323*% of total assets of scheduled banks -.0983*natural log of assets +.0192*%of advances outside India -.00885*growth in assets + 0.0104*% of borrowings outside India + 0.012*% of total banking profit

The R squared statistics measures the power of regression equation in explaining the proportion of variation of dependent variable explained by the estimated regression equation. Variation refers to the sum of the squared deviation between the values of the dependent variable and the mean value of the dependent variable. The determination coefficient for the model. This coefficient, value is between 0 and 1. Statistics of one implies the regression fits perfectly whereas a statistics of 0 implies that the explanatory power of the regression is no better than the mean of the dependent variable.

The drawback with the R^2 is that it does not take into account the number of variables used to fit the model. In order to overcome this we use another coefficient called as **Adjusted R^2**: The adjusted R^2 is a correction to the R^2 which takes into account the number of variables used in the model. . The adjusted R^2 can be negative if the R^2 is near to zero.

According to our regression equation R squared and Adjusted R squared are .804 and 0.765 respectively, which indicate a good model because76.5% of the variability of the dependent variable is explained by the independent variables. The explanatory variables included in the regression are good predictors of return on equity.

The Durbin Watson (DW Statistics) for our regression model is 2.081.Since this value is greater than $d \geq d(u,\alpha)$ there is no statistical evidence that error terms are positively auto correlated. The Dw test statistics for 13 repressors and 80 observations is 1.283(LB) and 2,024(UB) at 5% significance level. This coefficient is the order 1 autocorrelation coefficient and is used to check that the residuals of the model are not auto correlated, given that the independence of the residuals is one of the basic hypotheses of linear regression.

- **Cp**: Mallows Cp coefficient is the sum of the squares of the errors for the model with p explanatory variables and is the estimator of the variance of the residuals for the model comprising all the explanatory variables. The nearer the Cp coefficient is to p*, the less the model is biased. In this regression equation Mallows Cp coefficient is coming to 9.159 which is nearer to the number of predictors, which is 13 that we have used in our regression equation
- **AIC**: In our regression estimate AIC is coming out tobe-192.589 when we have 13 predictors in the model. AIC is -152.908 and -192.640 when we have 1 and 12 predictors respectively in the regression equation.
- **SBC**: In our regression estimate SBC is coming out tobe-159.24 when we have 13 predictors in the model. SBC is -148.14 and -161.67 when we have 1 and 12 predictors respectively in the regression equation.
- **PC**: Amemiya's Prediction Criterion is used, like the adjusted R^2 to take account of the parsimony of the model. In our regression equation this comes out to be.271 when we use 13 predictors and.445 &.271 when we use 1 and 12 predictors respectively.

- **Press**: The Press (predicted residual error sum of squares)

The Press RMSE can then be compared to the RMSE. A large difference between the two shows that the model is sensitive to the presence or absence of certain observations in the model.

In our regression Press Statistics is 7.594 and RMSE is .277.The difference between these two is substantial, which implies that there are certain variables whose observations when present/absent would substantially change the regression .One of the probable variable would be return on advances adjusted to cost of funds. Theoretically also one of the major determinants of return on assets is the return on advances adjusted to cost of funds as that is the major revenue generation source for the banks,

- **Q^2**: This statistic, also known as the cross-validated R^2. **In our regression the R squared is .804 and Q squared is .707.The difference is not much.**

Given the p-value of the F statistic computed in the ANOVA table, and given the significance level of 5%, the information brought by the explanatory variables is significantly better than what a basic mean would bring. The F statistics for ROA regression is 20.828 and F statistics probability is 0.0001, therefore we can reject the null hypothesis that all slope coefficients excluding the constants are zero at 5% coefficient level.

Table 5.56 also presents the statistical analysis of the variables used in the regression equation. According to t statistics there are 9 statistically significant coefficients in 5%confidence interval. These coefficients have a t statistics greater than 1.96 in absolute value and a p value very close to zero. Therefore, we can safely reject the null hypothesis that these slope coefficients are zero with 5% confidence level.

Corporate governance variable has a t statistics equal to 1.69 and a p value equal to .096,which leads us to the conclusion that that this coefficient is not significant at 5% significant level, but it is significant at 10% significant level. At 5% significant level we cannot reject the hypothesis that it is equal to zero, but at 10% significant level we can reject the hypothesis that it is equal to zero.

As far as multi co linearity is considered apart from one variable i.e. % of borrowings outside India none of the variables have VIF greater than 10 and tolerance near to zero.

With reference to Cooks Distance and Mahalanobis Distance most of the values are within the permissible limit. Cook's Distance is used to find influential outliers. Cook's distance is a combination of leverage and residual values of each observation used in the regression. Cook's distance can be interpreted using various yardskicks. One of the measures that Cook's distance 3 times more of mean is a possible outlier. Another measure of outlier is that any observation having a cook's distance of more than 4/n is a possible outlier. In our regression the minimum and maximum Cook's distance is .000 and .298 with mean of .018 which is quite low as compared to .05 the permissible limit.

Similarly, the Mahalonobis distance is a statistical measure of the extent to which observations are multivariate outliers. It is the measure of distance between a point P and a distribution D. It measures how many standard deviations away P is from the mean of D.

If the maximum Mahalanobis distance, is greater than the critical chi square value for df=D (the number of predictor variables in the regression equation) at a critical alpha level of .001 indicates the presence of one or more multivariate outliers.

In our regression the maximum MD is coming out to be 46.456 which is greater than 34.528 the critical chi square value for 13df at .001 alpha level which indicates the presence of one or more outliers. However if compare the mean value of MD 12.838 with the critical value of 34.528 it indicates that majority of the observations are not outliers.

II. Return on Equity (RoE)

Table 5.60: Summary of the variables selection ROE

No. of variables	Variables	MSE	R^2	Adjusted R^2	Mallows' Cp	Akaike's AIC	Schwarz's SBC	Ameemiya's PC
1	Return on advances adjusted	35.334	0.139	0.128	55.764	287.1	291.927	0.88

	cost of funds					62		3
2	Return on advances adjusted cost of funds / % of borrowings outside India	32.153	0.226	0.206	44.365	280.584	287.730	0.813
3	Return on advances adjusted cost of funds / %of advances outside India / CAR	26.273	0.376	0.351	23.460	265.378	274.906	0.672
4	Return on advances adjusted cost of funds / %of advances outside India / net NPA To net advances / CAR	24.708	0.421	0.390	18.593	261.406	273.316	0.639
5	CG Index / Return on advances adjusted cost of funds / %of advances outside India / net NPA To net advances / CAR	23.264	0.462	0.426	14.306	257.517	271.809	0.609
6	CG Index / Return on advances adjusted cost of funds / %of advances outside India / growth in assets / net NPA To net advances / CAR	22.225	0.493	0.451	11.565	254.771	271.445	0.588
7	CG Index / Return on advances adjusted cost of funds / dividend payout / %of advances outside India / growth in assets / net NPA To net advances / CAR	21.637	0.513	0.466	10.480	253.524	272.580	0.579
8	CG Index / Return on advances adjusted cost of funds / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / net NPA To net advances / CAR	21.138	0.531	0.478	9.753	252.540	273.978	0.572
9	CG Index / Return on advances adjusted cost of funds / dividend payout / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / net NPA To net advances / CAR	20.676	0.548	0.490	9.196	251.637	275.457	0.565
10	CG Index / Return on advances adjusted cost of funds / dividend payout / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / net NPA To net advances / CAR / debt/equity ratio	20.529	0.557	0.493	9.723	251.915	278.118	0.567
11	CG Index / Volatility / Return on advances adjusted cost of funds / average dividend yield / dividend payout / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / net NPA To net advances / CAR	20.491	0.565	**0.494**	10.617	252.599	281.183	0.572
12	CG Index / Volatility / Return on advances adjusted cost of funds / average dividend yield / dividend payout / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / net	20.528	0.570	0.493	11.756	253.558	284.524	0.579

	NPA To net advances / CAR / debt/equity ratio							
13	CG Index / Volatility / Return on advances adjusted cost of funds / average dividend yield / average p/b / dividend payout / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / net NPA To net advances / CAR / debt/equity ratio	20.565	0.576	0.492	12.891	254.499	287.847	0.586
14	CG Index / Volatility / Return on advances adjusted cost of funds / average dividend yield / dividend payout / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / % of total banking profit / Ratio of demand and savings deposits to total deposits / net NPA To net advances / CAR / debt/equity ratio	20.528	0.583	0.493	13.793	255.133	290.863	0.591

Table 5.61: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df 1	df 2	Sig. F Change	
1	.751[a]	.565	.494	4.526736287000000	.565	8.015	11	68	.000	1.930

a. Predictors: (Constant), CAR, average dividend yield, CG Index, % of total assets , Volatility, growth in assets, net NPA To net advances, %of advances outside India, dividend payout, Return on advances adjusted cost of funds, % of borrowings outside India

b. Dependent Variable: ROE

Table 5.62 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1806.681	11	164.244	8.015	.000[b]
	Residual	1393.411	68	20.491		
	Total	3200.092	79			

a Dependent Variable: ROE

Goodness of Fit Statistics

Observations	80.000
Sum of weights	80.000
DF	68.000
R^2	0.565
Adjusted R^2	0.494
MSE	20.491
RMSE	4.527
MAPE	71.963
DW	1.930
Cp	10.617
AIC	252.599
SBC	281.183
PC	0.589
Press	1962.003
Q^2	0.387

Table 5.63: Type III Sum of Squares analysis (ROE)

Source	DF	Sum of squares	Mean squares	F	Pr > F
CG Index	1	56.557	56.557	2.760	0.101
Volatility	1	30.899	30.899	1.508	0.224
Return on advances adjusted cost of funds	1	570.261	570.261	27.829	< **0.0001**
Return on Investments adjusted cost of funds	0	0.000			
average dividend yield	1	31.221	31.221	1.524	0.221
average p/b	0	0.000			
dividend payout	1	82.507	82.507	4.026	**0.049**
% of total assets	1	99.161	99.161	4.839	**0.031**
%of advances outside India	1	75.883	75.883	3.703	0.058
growth in assets	1	78.261	78.261	3.819	0.055
% of borrowings outside India	1	108.210	108.210	5.281	**0.025**
%Increase in income	0	0.000			
% of total banking profit	0	0.000			
Ratio of demand and savings deposits to total deposits	0	0.000			
net NPA To net advances	1	161.764	161.764	7.894	**0.006**
deposits to total liability	0	0.000			
CAR	1	530.129	530.129	25.871	< **0.0001**
debt/equity ratio	0	0.000			

Table 5.64: Correlations [a]

	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations			Co linearity Statistics	
Model 1	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	2.961	8.240		.359	.720	-13.481	19.403					
CG Index	.114	.069	.154	1.661	.101	-.023	.252	.200	.197	.133	.746	1.341
Volatility	.129	.105	.114	1.228	.224	-.080	.338	-.022	.147	.098	.741	1.349
Return on advances adjusted cost of funds	5.910	1.120	.799	5.275	.000	3.674	8.145	.372	.539	.422	.279	3.580
average dividend yield	.854	.692	.172	1.234	.221	-.526	2.234	-.125	.148	.099	.329	3.043
dividend payout	-.176	.088	-.273	-2.007	.049	-.352	-.001	-.170	-.236	-.161	.346	2.894
% of total assets	-.480	.218	-.306	-2.200	.031	-.915	-.045	.048	-.258	-.176	.331	3.017
%of advances outside India	.249	.129	.394	1.924	.058	-.009	.507	.151	.227	.154	.153	6.538
growth in assets	-.110	.056	-.197	-1.954	.055	-.222	.002	.061	-.231	-.156	.631	1.584

% of borrowings outside India	.134	.058	.549	2.298	.025	.018	.250	.293	.268	.184	.112	8.915
net NPA To net advances	-1.125	.400	-.338	-2.810	.006	-1.924	-.326	-.318	-.323	-.225	.442	2.261
CAR	-1.855	.365	-.734	-5.086	.000	-2.583	-1.127	.120	-.525	-.407	.308	3.250

Table 5.65: Co linearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions											
				(Constant)	CG Index	Volatility	Return on advances adjusted cost of funds	average dividend yield	dividend payout	% of total assets	%of advances outside India	growth in assets	% of borrowings outside India	net NPA To net advances	CAR
1	1	8.779	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.305	2.594	.00	.00	.01	.00	.00	.00	.04	.03	.00	.01	.01	.00
	3	.716	3.500	.00	.00	.01	.00	.04	.02	.01	.00	.06	.00	.10	.00
	4	.530	4.070	.00	.00	.00	.00	.07	.04	.00	.00	.18	.00	.02	.00
	5	.245	5.992	.00	.00	.01	.00	.01	.00	.46	.13	.06	.00	.01	.00
	6	.183	6.923	.00	.00	.06	.00	.05	.02	.04	.07	.35	.01	.27	.00
	7	.106	9.098	.00	.00	.54	.01	.04	.12	.04	.03	.09	.03	.09	.00
	8	.076	10.714	.00	.00	.10	.01	.48	.64	.02	.00	.24	.00	.05	.00
	9	.038	15.298	.00	.00	.09	.00	.16	.04	.33	.34	.01	.84	.11	.02
	10	.012	27.370	.02	.31	.17	.31	.11	.02	.06	.07	.02	.02	.16	.03
	11	.008	34.113	.01	.01	.01	.45	.03	.05	.00	.27	.00	.02	.05	.92
	12	.003	57.080	.96	.67	.00	.21	.00	.05	.00	.06	.00	.07	.13	.01
a. Dependent Variable: ROE															

Table 5.66: **Residuals Statistics** [a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	4.335246086000001	25.48437881 0000000	12.66788767 0000000	4.782194050 000000	80
Std. Predicted Value	-1.742	2.680	.000	1.000	80
Standard Error of Predicted Value	.894	3.514	1.706	.407	80
Adjusted Predicted Value	3.411202669 000000	21.87960052 0000000	12.59148840 0000001	4.779044440 000001	80
Residual	-12.34552860 0000000	14.59002876 0000001	.0000000000 00020	4.199775786 000000	80
Std. Residual	-2.727	3.223	.000	.928	80
Stud. Residual	-2.905	3.448	.008	1.009	80
Deleted Residual	-14.01190948 0000000	16.69472313 0000000	.0763992793 00000	4.982928277 000000	80
Stud. Deleted Residual	-3.082	3.767	.012	1.038	80
Mahal. Distance	2.094	46.615	10.863	6.257	80
Cook's Distance	.000	.187	.016	.034	80
Centered Leverage Value	.027	.590	.138	.079	80
a. Dependent Variable: ROE					

Chart 5.57

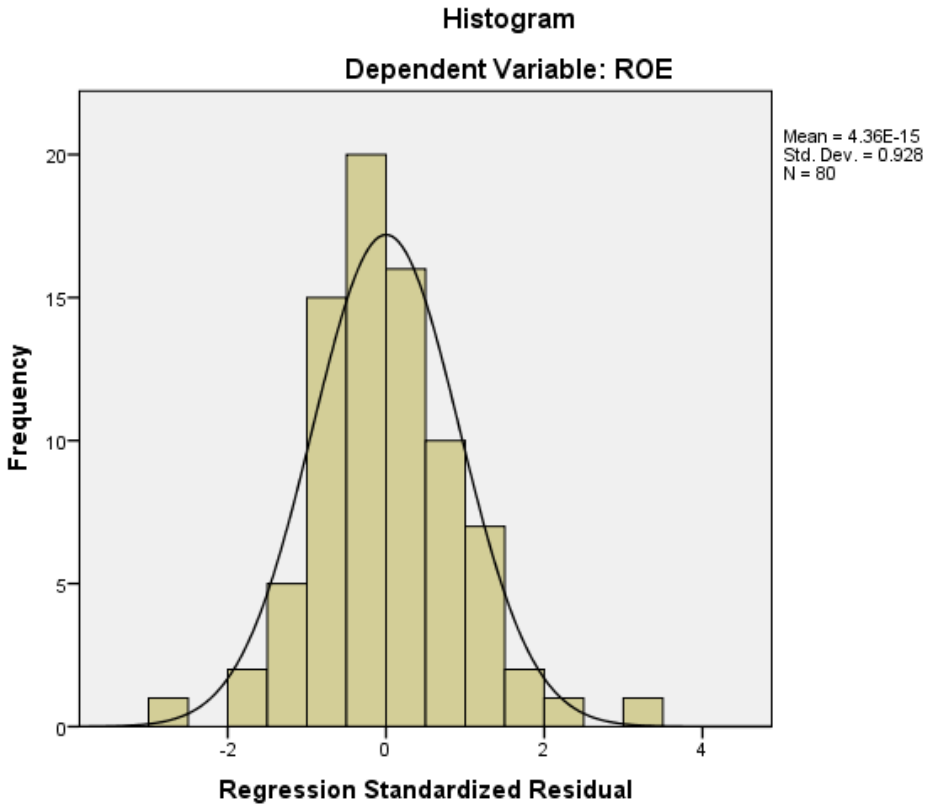
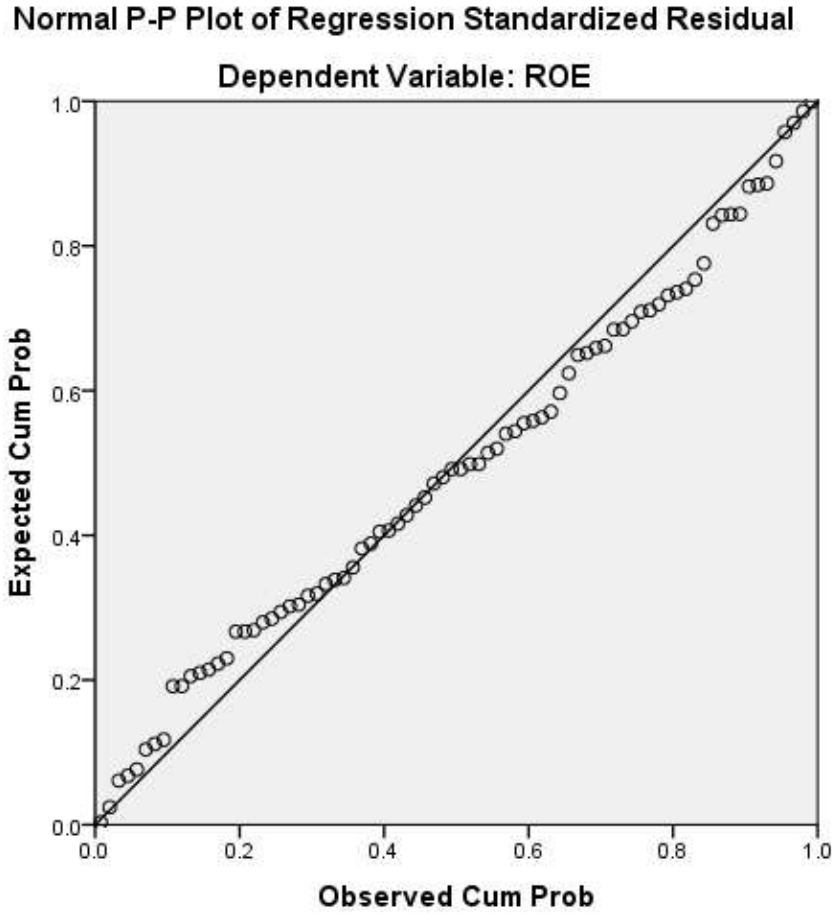


Chart 5.58



According to goodness of fit statistics R^2 and adjusted R^2 are .565 and .494 respectively. If we compare this with the regression fit for ROA, they are on the lower side. According to the adjusted R^2 criteria this model explains 49.4% variability of the dependent variable ROE. This implies that nearly 50% of the real data points do not fall on the regression line and this regression can predict less of the movement of ROE.

The MSE and RMSE for ROE regression are 20.491 and 4.527 respectively. If compared with our ROA regression these are on the higher side and it is partly expected too because adjusted R^2 is also lower in this regression.

The Durbin Watson (DW Statistics) for our regression model is1.930.Since this value is greater than $d \geq d(u,\alpha)$ there is no statistical evidence that error terms are positively auto correlated. The DW test statistics for 11 regresses and 80 observations is 1.205(LB) and 1.810(UB)at 5% significance level.

The **mean absolute percentage error** (**MAPE**), also known as **mean absolute percentage deviation** (**MAPD**), is a measure of prediction accuracy of a forecasting method. It usually expresses accuracy as a percentage, the MAPE for this regression is 71.93

In our regression estimate AIC is coming out to be-253.588 when we have 11 predictors in the model. AIC is 287.16 and 252.99 when we have 1 and 10 predictors respectively in the regression equation.

This criterion, proposed by Schwarz (1978) is similar to the AIC, and the aim is to minimize it.

In our regression estimate SBC is coming out to be-284.524 when we have 11 predictors in the model. SBC is 291.927 and 252.99 when we have 1 and 10 predictors respectively in the regression equation.

- **PC**: Amemiya's Prediction Criterion In our regression equation this comes out to be .5721 when we use 11 predictors and.883 &.567 when we use 1 and 10 predictors respectively.

The Press RMSE can then be compared to the RMSE. A large difference between the two shows that the model is sensitive to the presence or absence of certain observations in the model.

In our regression Press Statistics is 1962 and PressRMSE is 4.95 and RMSE is4.527The difference between these two is not substantial, which implies that there are no variables whose observations when present/absent would substantially change the regression .One of the probable variable would be return on advances adjusted to cost of funds. Theoretically also one of the major determinants of return on assets is the return on advances adjusted to cost of funds as that is the major revenue generation source for the banks,

- **Q^2**: This statistic, also known as the cross-validated R^2.

In our regression the R squared is .565 and Q squared is .387.The difference is not much.

Given the p-value of the F statistic computed in the ANOVA table, and given the significance level of 5%, the information brought by the explanatory variables is significantly better than what a basic mean would bring. **The F statistics for ROE regression is 8.015 and F statistics probability is 0.0001, therefore we can reject the null hypothesis that all slope coefficients excluding the constants are zero at 5% coefficient level.**

Equation of the Model (ROE):

ROE = 2.96142309460769+0.114*CG index + 0.1288 * Volatility + 5.9099 * Return on advances adjusted cost of funds + 0.853*average dividend yield-0.1763*dividend payout-0.479*% of total assets + 0.24902*%of advances outside India - 0.10997*growth in assets + 0.133*% of borrowings outside India - 1.1248*net NPA To net advances-1.8549*CAR

Table 5.64 also presents the statistical analysis of the variables used in the regression equation. According to t statistics there are 9statistically significant coefficients in 5%confidence interval. These coefficients have a t statistics greater than 1.96 in absolute value and a p value very close to zero. Therefore we can safely reject the null hypothesis that these slope coefficients are zero with 5% confidence level.

Corporate governance variable has a t statistics equal to 1.661 and a p value equal to.101, which leads us to the conclusion that that this confident is not significant at 5% significant level, but it is significant at 10% significant level. At 5% significant level we cannot reject the hypothesis that it is equal to zero, but at 10% significant level we can reject the hypothesis that it is equal to zero.

As far as multiCo linearity is considered none of the variables and have VIF factor greater than 10 condition index close to 0.

In our regression for RoE the maximum and minimum Cook's distance .187 and .000 with mean of .016. Comparing the mean CD of .016 with permissible CD of .05 indicates that most of the observations are not ouliers.

Similarly, if we analyse the Mahalanobis Distance the maximum and minimum MDs are 46.615 and 2.094 with mean of 10.863.

The critical chi square value for 11df at .001 alpha level is 31.264 which is less than the maximum MD of 46.615. This indicates that some of the observations are outliers but when we compare the critical value to the mean MD of 10.863, it suggests that most of the observations fit well into the regression model.

Chart 5.59

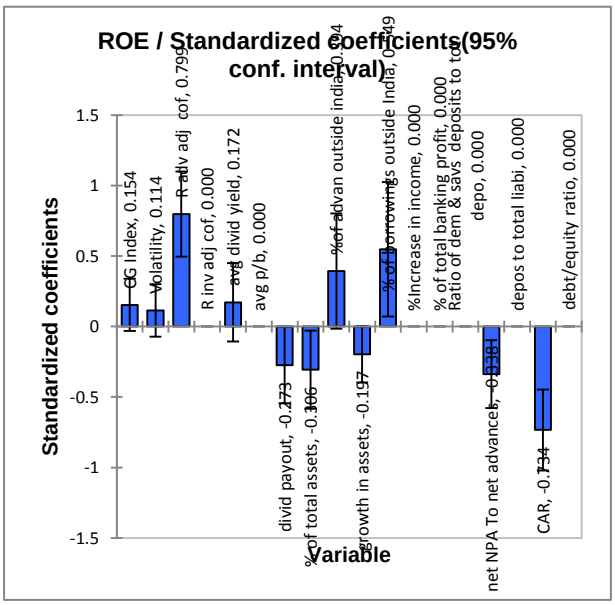


Chart 5.60

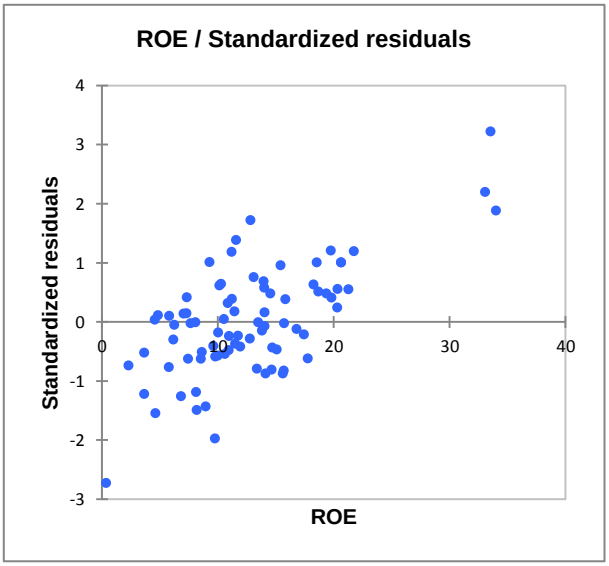


Chart 5.61

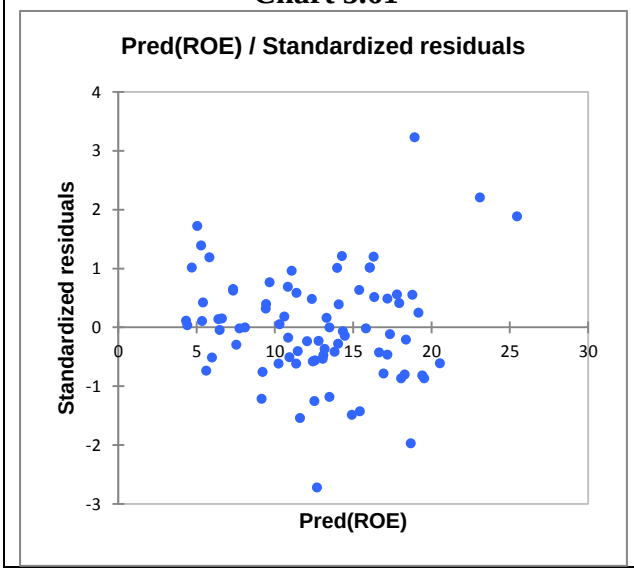
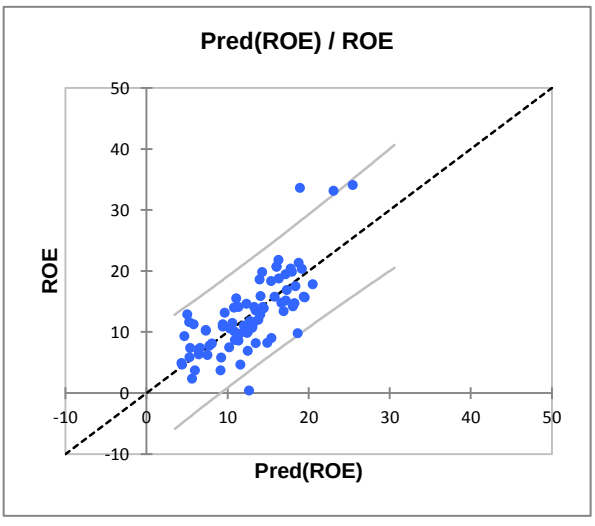


Chart 5.62



III. Investor Returns (INV RET)

Table 5.67: Summary of the variables selection

Investor Return (INV RET)

No. of variables	Variables	MSE	R^2	Adjusted R^2	Mallows' Cp	Akaike's AIC	Schwarz's SBC	Amemiya's PC
1	debt/equity ratio	818.242	0.220	0.210	6.413	538.547	543.311	0.799
2	net NPA To net advances / debt/equity ratio	811.449	0.237	0.217	6.681	538.848	545.994	0.802
3	growth in assets / %Increase in income / net NPA To net advances	774.192	0.281	0.253	3.977	536.042	545.570	0.774
4	growth in assets / %Increase in income / net NPA To net advances / debt/equity ratio	739.175	0.323	0.286	1.586	533.280	545.190	0.748
5	Volatility / growth in assets / %Increase in income / net NPA To net advances / debt/equity ratio	720.729	0.348	0.304	0.869	532.184	546.476	0.737
6	Volatility / growth in assets / %Increase in income / % of total banking profit / net NPA To net advances / CAR	719.607	0.358	0.305	1.832	532.971	549.645	0.745
7	Volatility / % of total assets / growth in assets / %Increase in income / % of total banking profit / net NPA To net advances / debt/equity ratio	702.365	0.382	0.322	1.300	531.927	550.984	0.735
8	Volatility / average p/b / % of total assets / growth in assets / %Increase in income / % of total banking profit / net NPA To net advances / debt/equity ratio	696.764	0.396	0.327	1.880	532.168	553.606	0.737
9	CG Index / Volatility / average p/b / % of total assets / growth in assets / %Increase in income / % of total banking profit / net NPA To net advances / debt/equity ratio	696.685	0.404	**0.327**	2.973	533.024	556.844	0.745
10	CG Index / Volatility /	700.75	0.409	0.32	4.436	534.33	560.54	0.75

	average p/b / % of total assets / growth in assets / %Increase in income / % of total banking profit / Ratio of demand and savings deposits to total deposits / net NPA To net advances / debt/equity ratio	1		4		9	1	7
11	CG Index / Volatility / average p/b / dividend payout / % of total assets / growth in assets / %Increase in income / % of total banking profit / Ratio of demand and savings deposits to total deposits / net NPA To net advances / debt/equity ratio	708.459	0.411	0.316	6.208	536.046	564.630	0.774
12	CG Index / Volatility / average dividend yield / dividend payout / % of total assets / growth in assets / %Increase in income / % of total banking profit / Ratio of demand and savings deposits to total deposits / net NPA To net advances / deposits to total liability / debt/equity ratio	716.216	0.414	0.309	7.964	537.732	568.698	0.790
13	CG Index / Volatility / Return on advances adjusted cost of funds / average dividend yield / dividend payout / % of total assets / growth in assets / %Increase in income / % of total banking profit / Ratio of demand and savings deposits to total deposits / net NPA To net advances / deposits to total liability / debt/equity ratio	723.238	0.417	0.302	9.637	539.309	572.658	0.806
14	CG Index / Volatility / Return on advances adjusted cost of funds / average dividend yield / dividend payout / % of total assets / growth in assets / %Increase in income / % of total banking profit / Ratio of demand and savings	731.723	0.419	0.294	11.416	541.021	576.751	0.824

	deposits to total deposits / net NPA To net advances / deposits to total liability / CAR / debt/equity ratio							

Table 5.68: Goodness of Fit Statistics (INV RET)

Observations	80.000
Sum of weights	80.000
DF	70.000
R^2	0.404
Adjusted R^2	0.327
MSE	696.685
RMSE	26.395
MAPE	328.041
DW	1.328
Cp	2.973
AIC	533.024
SBC	556.844
PC	0.766
Press	62979.248
Q^2	0.230

Table 5.69: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.636[a]	.404	.327	26.394782910000000	.404	5.274	9	70	.000	1.328

a. Predictors: (Constant), debt/equity ratio, % of total assets , %Increase in income, Volatility, CG Index, % of total banking profit, net NPA To net advances, growth in assets, average p/b

b. Dependent Variable: INV RET

Table 5.70: ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33069.828	9	3674.425	5.274	.000[b]
	Residual	48767.920	70	696.685		
	Total	81837.747	79			

a. Dependent Variable: INV RET

b. Predictors: (Constant), debt/equity ratio, % of total assets , %Increase in income, Volatility, CG Index, % of total banking profit, net NPA To net advances, growth in assets, average p/b

Table 5.71: Type III Sum of Squares analysis (INV RET)

Source	DF	Sum of squares	Mean squares	F	Pr > F
CG Index	1	702.290	702.290	1.008	0.319
Volatility	1	2786.657	2786.657	4.000	**0.049**
Return on advances adjusted cost of funds	0	0.000			
Return on Investments adjusted cost of funds	0	0.000			
average dividend yield	0	0.000			
average p/b	1	1220.298	1220.298	1.752	0.190
dividend payout	0	0.000			
% of total assets	1	2898.219	2898.219	4.160	**0.045**
%of advances outside India	0	0.000			
growth in assets	1	5904.334	5904.334	8.475	**0.005**
% of borrowings outside India	0	0.000			
%Increase in income	1	11249.247	11249.247	16.147	**0.000**
% of total banking profit	1	2972.874	2972.874	4.267	**0.043**
Ratio of demand and savings deposits to total deposits	0	0.000			
net NPA To net advances	1	7929.225	7929.225	11.381	**0.001**
deposits to total liability	0	0.000			
CAR	0	0.000			
debt/equity ratio	1	1591.177	1591.177	2.284	0.135

Table 5.72: Coefficients [a]

	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations			Co linearity Statistics	
Model 1	B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	61.150	39.510		1.548	.126	-17.650	139.950					
CG Index	-.399	.397	-.106	-1.004	.319	-1.190	.393	.090	-.119	-.093	.761	1.314
Volatility	1.264	.632	.222	2.000	.049	.003	2.524	-.112	.232	.185	.693	1.443
average p/b	6.817	5.151	.204	1.323	.190	-3.456	17.091	.392	.156	.122	.360	2.778
% of total assets	2.059	1.010	.260	2.040	.045	.046	4.073	.114	.237	.188	.525	1.903
growth in assets	1.253	.430	.443	2.911	.005	.395	2.111	.257	.329	.269	.367	2.726
%Increase in income	-1.770	.440	-.692	-4.018	.000	-2.648	-.891	.073	-.433	-.371	.287	3.485
% of total banking profit	-1.166	.565	-.283	-2.066	.043	-2.292	-.040	.154	-.240	-.191	.452	2.211
net NPA To net advances	-8.481	2.514	-.504	-3.374	.001	-13.495	-3.467	-.390	-.374	-.311	.381	2.622
debt/equity ratio	-.016	.011	-.240	-1.511	.135	-.038	.005	-.469	-.178	-.139	.338	2.957

Table 5.73: Coefficient Correlations [a]

Co linearity Diagnostics [a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions									
				(Constant)	CG Index	Volatility	average p/b	% of total assets	growth in assets	%Increase in income	% of total banking profit	net NPA To net advances	debt/equity ratio
1	1	7.010	1.000	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
	2	1.329	2.297	.00	.00	.00	.01	.02	.00	.00	.10	.03	.00
	3	.870	2.838	.00	.00	.00	.01	.12	.03	.02	.06	.02	.00
	4	.271	5.090	.00	.00	.01	.10	.44	.07	.03	.23	.00	.00
	5	.187	6.118	.00	.00	.09	.22	.05	.04	.06	.17	.14	.01
	6	.175	6.327	.00	.00	.05	.11	.25	.23	.00	.37	.13	.00
	7	.068	10.120	.01	.01	.56	.00	.00	.04	.02	.02	.25	.13
	8	.065	10.408	.00	.01	.18	.03	.01	.48	.70	.05	.36	.00
	9	.021	18.259	.04	.10	.08	.50	.02	.10	.12	.00	.07	.72
	10	.003	45.959	.95	.89	.03	.03	.07	.00	.04	.00	.00	.13
a. Dependent Variable: INV RET													

Table 5.74: Residuals Statistics [a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-50.014568330000000	55.146793370000005	-.391750000000000	20.459848860000000	80
Std. Predicted Value	-2.425	2.715	.000	1.000	80
Standard Error of Predicted Value	5.066	19.765	8.886	2.868	80
Adjusted Predicted Value	-54.863174440000000	53.836124420000004	.229465625000000	21.264693950000000	80
Residual	-62.648010250000000	114.712287899999990	.000000000000000	24.845833400000000	80
Std. Residual	-2.373	4.346	.000	.941	80
Stud. Residual	-2.525	4.484	-.010	.999	80
Deleted Residual	-70.902893070000000	122.127235399999990	-.621215625000000	28.227909520000000	80
Stud. Deleted Residual	-2.630	5.274	.001	1.056	80
Mahal. Distance	1.922	43.313	8.888	7.052	80
Cook's Distance	.000	.213	.014	.031	80
Centered Leverage Value	.024	.548	.113	.089	80
a. Dependent Variable: INV RET					

Chart 5.63

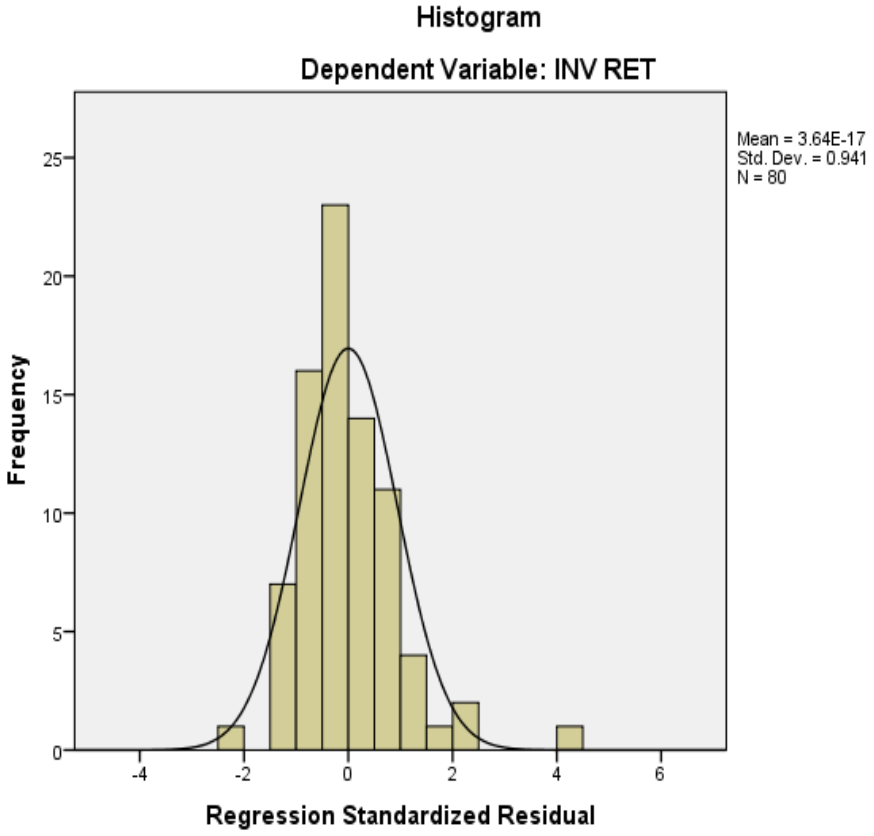


Chart 5.64

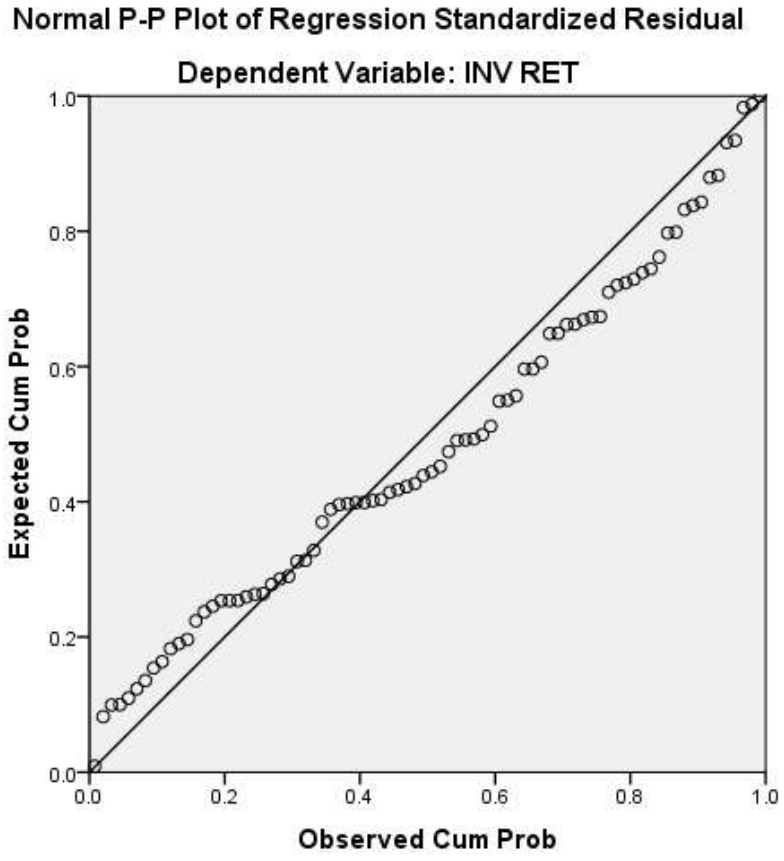


Chart 5.65

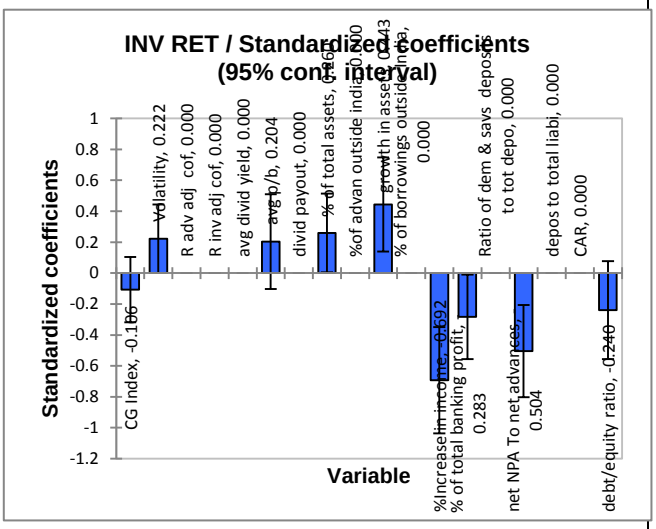


Chart 5.66

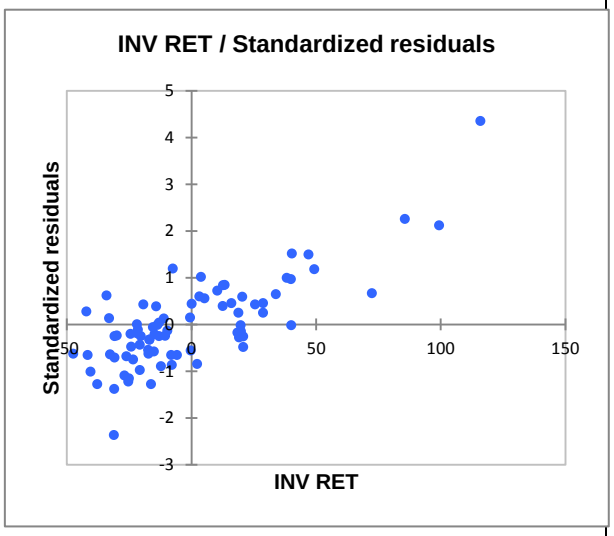


Chart 5.67

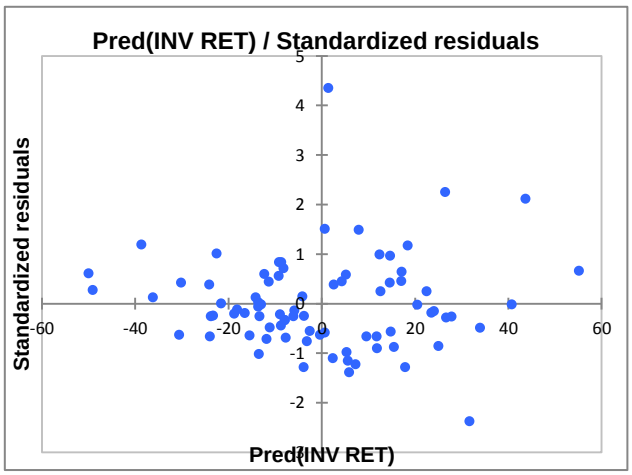


Chart 5.68

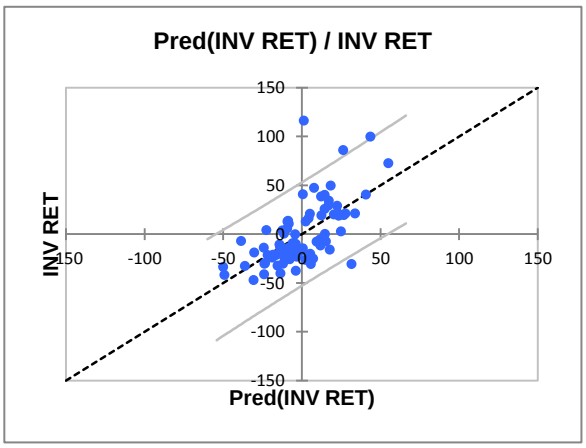


Chart 5.69

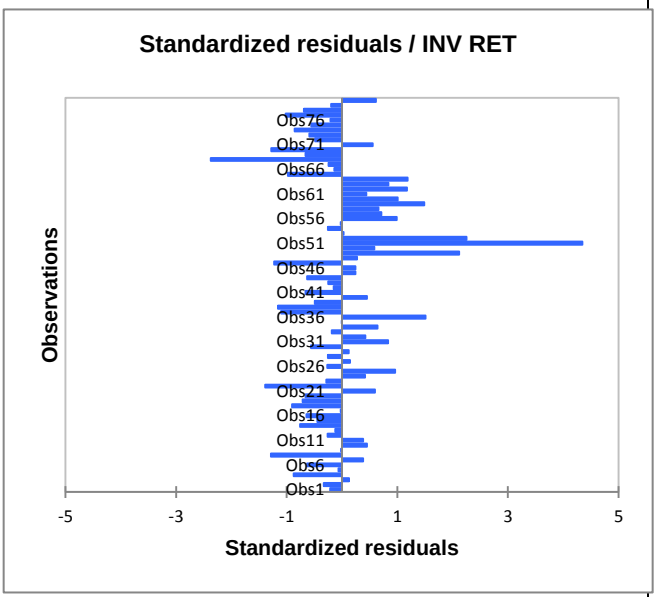
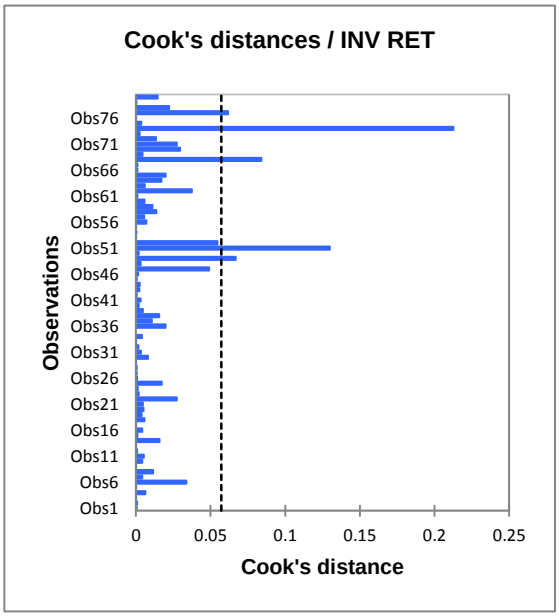


Chart 5.70



Interpretation (INV RET):

Using the Best model variables selection method, 9 variables have been retained in the model.

Given the R2, 40% of the variability of the dependent variable INV RET is explained by the 9 explanatory variables.

Given the p-value of the F statistic computed in the ANOVA table, and given the significance level of 5%, the information brought by the explanatory variables is significantly better than what a basic mean would bring.

Based on the Type III sum of squares, the following variables bring significant information to explain the variability of the dependent variable INV RET: Volatility % of total assets growth in assets % Increase in income% of total banking profit net NPA to net advances.

Based on the Type III sum of squares, the following variables do not bring significant information to explain the variability the dependent variable INV RET: CG Index average p/debt/equity ratio.

Among the explanatory variables, based on the Type III sum of squares, variable Return on advances adjusted cost of funds is the most influential.

According to our regression equation R squared and Adjusted R squared are .404 and 0.327 respectively, which indicate 32.5% of the variability of the dependent variable is explained by the independent variables. The explanatory variables included in the regression are moderate predictors of investment return.

The Durbin Watson (DW Statistics) for our regression model is 1.328.Since this value is less than d< d(l,α) there is statistical evidence that error terms are positively auto correlated. The Dw test statistics for 9 regresses and 80 observations is 1.397(LB) and 1.893(UB)at 5% significance level. This coefficient is the order 1 autocorrelation coefficient and is used to check that the residuals of the model are not auto correlated, given that the independence of the residuals is one of the basic hypotheses of linear regression.

Cp: Mallows Cp coefficient is the sum of the squares of the errors for the model with p explanatory variables and is the estimator of the variance of the residuals for the model comprising all the explanatory variables. The nearer the Cp coefficient is to p*, the less the model is biased. In this regression equation Mallows Cp coefficient is coming to 2.973 which is not nearer to the number of predictors, which is 9that we have used in our regression equation

- **AIC**: In our regression estimate AIC is coming out tobe-533.024 we
- **SBC**: In our regression estimate SBC is coming out tobe-556.844
- **PC**: Amemiya's Prediction Criterion is used, like the adjusted R^2 to take account of the parsimony of the model. In our regression equation this comes out to be.766 .
- **Q^2**: This statistic, also known as the cross-validated R^2. **In our regression the R squared is .404 and Q squared is .230.The difference is not much.**

Given the p-value of the F statistic computed in the ANOVA table, and given the significance level of 5%, the information brought by the explanatory variables is significantly better than what a basic mean would bring. **The F statistics for ROE regression is 5.274 and F statistics**

probability is 0.000, therefore we can reject the null hypothesis that all slope coefficients excluding the constants are zero at 5% coefficient level.

Table 5.72 also presents the statistical analysis of the variables used in the regression equation. According to t statistics there are 6 statistically significant coefficients in 5%confidence interval. These coefficients have a t statistics greater than 1.96 in absolute value and a p value very close to zero. Therefore, we can safely reject the null hypothesis that these slope coefficients are zero with 5% confidence level.

Corporate governance variable has a t statistics equal to 1.004 and a p value equal to .319, which leads us to the conclusion that that this coefficient is not significant at 5% significant level. At 5% significant level we cannot reject the hypothesis that it is equal to zero, but at 10% significant level we can reject the hypothesis that it is equal to zero.

As far as multi co linearity is considered none of the variables have VIF greater than 10 and tolerance near to zero.

In our regression for investor return the maximum and minimum Cook's Distance is .213 and .000 respectively with mean of .014 comparing the mean CD of .014 with permissible CD of .05 indicate that most of the observations are not outliers.

Similarly if we analyse the Mahalanobis Distance the maximum and minimum MDs are 1.922 and 43.313 with mean of 8.888.

The critical chi square value for 9 df at .001 alpha level is 27.877 which is less than the maximum MD of 43.313. This indicate that some of the observations are outliers but when we compare the critical value to the mean MD of 8.888, it suggests that most of the observations fit well into the regression model.

IV. Price to Earnings Ratio (PE)

Table 5.75: Regression of variable AVERAGE PE

No. of variable	Variables	MSE	R^2	Adjusted R^2	Mallows' Cp	Akaike's AIC	Schwarz's SBC	Amemiya's PC
1	Return on advances adjusted cost of funds	517.996	0.040	0.028	30.467	501.972	506.736	0.984
2	%of advances outside India / % of borrowings outside India	469.248	0.141	0.119	21.211	495.033	502.179	0.902
3	%of advances outside India / % of borrowings outside India / Ratio of demand and savings deposits to total deposits	407.275	0.264	0.235	9.563	484.656	494.184	0.792
4	Return on Investments adjusted cost of funds / %of advances outside India / % of borrowings outside India / Ratio of demand and savings deposits to total deposits	356.911	0.364	0.330	0.536	475.036	486.946	0.702
5	Return on Investments adjusted cost of funds / average dividend yield / %of advances outside India / % of borrowings outside India / Ratio of demand and savings deposits to total deposits	342.606	0.398	0.357	-1.194	472.690	486.982	0.682
6	Return on Investments adjusted cost of funds / average dividend	337.447	0.415	0.366	-1.089	472.387	489.061	0.679

	yield / %of advances outside India / % of borrowings outside India / Ratio of demand and savings deposits to total deposits / deposits to total liability							
7	Return on Investments adjusted cost of funds / average dividend yield / % of total assets / %of advances outside India / % of borrowings outside India / Ratio of demand and savings deposits to total deposits / CAR	332.869	0.430	**0.375**	-0.846	472.191	491.247	0.677
8	Return on Investments adjusted cost of funds / average dividend yield / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / Ratio of demand and savings deposits to total deposits / deposits to total liability	334.356	0.436	0.372	0.555	473.429	494.867	0.688
9	Volatility / Return on Investments adjusted cost of funds / average dividend yield / % of total assets / %of advances outside India / % of borrowings outside India / %Increase in income / Ratio of demand and savings deposits to total deposits / deposits to total liability	335.404	0.442	0.370	1.867	474.544	498.365	0.697
10	Volatility / Return on Investments adjusted cost of funds / average dividend yield / % of total assets / %of advances outside India / % of borrowings outside India / %Increase in income / Ratio of demand and savings deposits to total deposits / net NPA To net advances / deposits to total liability	339.337	0.444	0.363	3.698	476.326	502.528	0.713
11	Volatility / Return on advances adjusted cost of funds / Return on Investments adjusted cost of funds / average dividend yield / % of total assets / %of advances outside India / % of borrowings outside India / %Increase in income / Ratio of demand and savings deposits to total deposits / net NPA To net advances / deposits to total liability	343.098	0.446	0.356	5.478	478.040	506.624	0.729
12	Volatility / Return on advances adjusted cost of funds / Return on Investments adjusted cost of funds / average dividend yield / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / % of total banking profit / Ratio of demand and savings deposits to total deposits / net NPA To net advances / deposits to total liability	346.739	0.448	0.349	7.217	479.699	510.665	0.744
13	Volatility / Return on advances	351.659	0.448	0.340	9.159	481.623	514.972	0.762

	adjusted cost of funds / Return on Investments adjusted cost of funds / average dividend yield / % of total assets / %of advances outside India / growth in assets / % of borrowings outside India / %Increase in income / % of total banking profit / Ratio of demand and savings deposits to total deposits / net NPA To net advances / deposits to total liability							
14	Volatility / Return on advances adjusted cost of funds / Return on Investments adjusted cost of funds / average dividend yield / average p/b / dividend payout / % of total assets / %of advances outside India / % of borrowings outside India / %Increase in income / % of total banking profit / Ratio of demand and savings deposits to total deposits / net NPA To net advances / deposits to total liability	356.645	0.449	0.330	11.086	483.528	519.259	0.781

AVERAGE PE = 75.652-12.394*Return on Investments adjusted cost of funds-3.17585*average dividend yield-1.4561*% of total assets-1.8852*%of advances outside India+1.6112*% of borrowings outside India-1.475*Ratio of demand & savings deposits to total deposits-1.8603*CAR

Table 5.76: Goodness of Fit Statistics (AVERAGE PE)

Observations	80.000
Sum of weights	80.000
DF	72.000
R^2	0.430
Adjusted R^2	0.375
MSE	332.869
RMSE	18.245
MAPE	128.319
DW	1.890
Cp	-0.846
AIC	472.191
SBC	491.247
PC	0.696
Press	44423.426
Q^2	-0.056

Table 5.77: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.656[a]	.430	.375	18.244706210000000	.430	7.774	7	72	.000	1.890

a. Predictors: (Constant), average dividend yield, Return on Investments adjusted cost of funds, CAR, Ratio of demand and savings; deposits to total deposits, %of advances outside India, % of total assets , % of borrowings outside India
b. Dependent Variable: AVERAGE PE

Table 5.78: ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18113.309	7	2587.616	7.774	.000[b]
	Residual	23966.590	72	332.869		
	Total	42079.899	79			

a. Dependent Variable: AVERAGE PE

b. Predictors: (Constant), average dividend yield, Return on Investments adjusted cost of funds, CAR, Ratio of demand and savings; deposits to total deposits, %of advances outside India, % of total assets , % of borrowings outside India

Table 5.79: Coefficients [a]

	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations			Co linearity Statistics	
Model 1	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	75.652	15.484		4.886	.000	44.785	106.520					
Return on Investments adjusted cost of funds	-12.394	3.723	-.477	-3.329	.001	-19.816	-4.972	-.134	-.365	-.296	.385	2.595
% of total assets	-1.456	.887	-.256	-1.641	.105	-3.225	.312	-.077	-.190	-.146	.325	3.076
%of advances outside India	-1.885	.425	-.822	-4.438	.000	-2.732	-1.038	-.097	-.463	-.395	.231	4.337
% of borrowings outside India	1.611	.239	1.825	6.734	.000	1.134	2.088	.114	.622	.599	.108	9.281
Ratio of demand and savings; deposits to total deposits	-1.475	.350	-.587	-4.214	.000	-2.173	-.777	-.054	-.445	-.375	.407	2.456
CAR	-1.860	1.094	-.203	-1.701	.093	-4.041	.320	.038	-.197	-.151	.556	1.800
average dividend yield	-3.176	1.676	-.177	-1.894	.062	-6.518	.166	-.197	-.218	-.168	.909	1.101

a. Dependent Variable: AVERAGE PE

Table 5.80: Coefficient Correlations [a]

Model 1		average dividend yield	Return on Investments adjusted cost of funds	CAR	Ratio of demand and savings; deposits to total deposits	%of advances outside India	% of total assets	% of borrowings outside India
Correlations	average dividend yield	1.000	.096	-.013	.169	-.169	-.114	.069
	Return on Investments adjusted cost of funds	.096	1.000	.178	.240	-.126	-.251	-.312
	CAR	-.013	.178	1.000	-.180	.002	.342	-.390
	Ratio of demand and savings; deposits to total deposits	.169	.240	-.180	1.000	.323	-.240	-.464
	%of advances outside India	-.169	-.126	.002	.323	1.000	.017	-.647
	% of total assets	-.114	-.251	.342	-.240	.017	1.000	-.354
	% of borrowings outside India	.069	-.312	-.390	-.464	-.647	-.354	1.000
Covariances	average dividend yield	2.811	.598	-.025	.099	-.121	-.169	.028
	Return on Investments adjusted cost of funds	.598	13.861	.725	.313	-.200	-.830	-.278
	CAR	-.025	.725	1.196	-.069	.001	.332	-.102
	Ratio of demand and savings; deposits to total deposits	.099	.313	-.069	.123	.048	-.075	-.039
	%of advances outside India	-.121	-.200	.001	.048	.180	.006	-.066
	% of total assets	-.169	-.830	.332	-.075	.006	.787	-.075
	% of borrowings outside India	.028	-.278	-.102	-.039	-.066	-.075	.057

a. Dependent Variable: AVERAGE PE

Table 5.81: Co linearity Diagnostics [a]

Dimension	Eigenvalue	Condition Index	Variance Proportions							
			(Constant)	Return on Investments adjusted cost of funds	% of total assets	%of advances outside India	% of borrowings outside India	Ratio of demand and savings; deposits to total deposits	CAR	average dividend yield
1	6.150	1.000	.00	.00	.00	.00	.00	.00	.00	.01
2	.979	2.507	.00	.01	.03	.04	.00	.00	.00	.07
3	.369	4.085	.00	.00	.00	.05	.00	.01	.00	.67

4	.240	5.061	.00	.00	.49	.22	.01	.00	.00	.04
5	.170	6.009	.00	.79	.09	.02	.02	.01	.00	.00
6	.061	10.015	.04	.02	.23	.52	.47	.00	.00	.16
7	.021	17.147	.02	.03	.11	.12	.10	.85	.29	.03
8	.010	25.278	.94	.14	.04	.03	.40	.13	.70	.03

a. Dependent Variable: AVERAGE PE

Table 5.82: Residuals Statistics [a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-22.510684970000000	85.772155760000000	12.827202830000001	15.142073670000000	80
Std. Predicted Value	-2.334	4.817	.000	1.000	80
Standard Error of Predicted Value	2.825	10.886	5.542	1.615	80
Adjusted Predicted Value	-26.552036290000000	41.795463560000000	12.012847280000000	13.815582070000000	80
Residual	-36.233715060000000	112.127845799999990	.000000000000027	17.417650710000000	80
Std. Residual	-1.986	6.146	.000	.955	80
Stud. Residual	-2.073	7.658	.020	1.106	80
Deleted Residual	-39.476936340000000	174.110199000000000	.814355543000000	23.699161980000000	80
Stud. Deleted Residual	-2.123	17.661	.145	2.101	80
Mahal. Distance	.907	27.136	6.913	4.810	80
Cook's Distance	.000	4.053	.057	.452	80
Centered Leverage Value	.011	.343	.088	.061	80
a. Dependent Variable: AVERAGE PE					

According to goodness of fit statistics R^2 and adjusted R^2 are .430 and .375 respectively. If we compare this with the regression fit for ROA, they are on the lower side. According to the adjusted R2 criteria this model explains 37.5% variability of the dependent variable Average PE. This implies that nearly 63% of the real data points do not fall on the regression line and this regression can predict less of the movement of Average PE.

The MSE and RMSE for ROE regression are 332.869 and 18.245 respectively. If compared with our ROA regression these are on the higher side and it is partly expected too because adjusted R^2 is also lower in this regression.

The Durbin Watson (DW Statistics) for our regression model is1.890.Since this value is greater than $d \geq d(u,\alpha)$ there is no statistical evidence that error terms are positively auto correlated. The Dw test statistics for 7regresses and 80 observations is 1.285(LB) and 1.683 (UB) at 5% significance level.

The **mean absolute percentage error** (**MAPE**), also known as **mean absolute percentage deviation** (**MAPD**), is a measure of prediction accuracy of a forecasting method in statistics, for example in trend estimation. Its value is coming out to be 128.319

In our regression estimate AIC is coming out to be 472.19 when we have 7 predictors in the model.

In our regression estimate SBC is coming out to be 491.247 when we have 7 predictors in the model. SBC is 291.927 and 252.99 when we have 1 and 10 predictors respectively in the regression equation.

- **PC**: This criterion, proposed by Amemiya (1980) is used, like the adjusted R^2 to take account of the parsimony of the model.

In our regression equation this comes out to be .696 when we use 7 predictors.

Chart 5.71

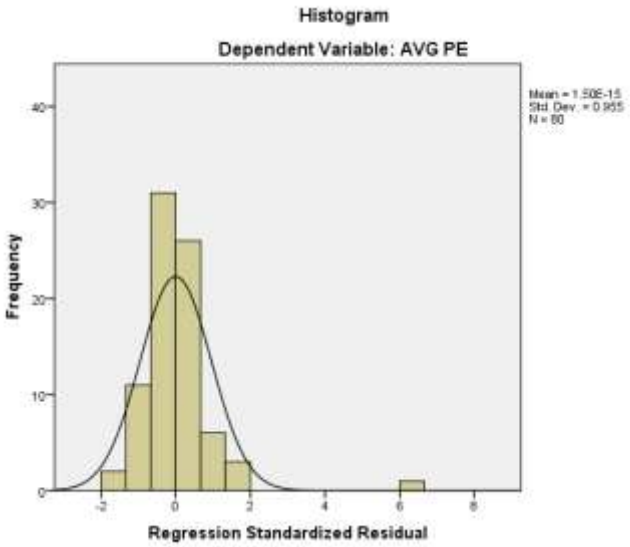


Chart 5.72

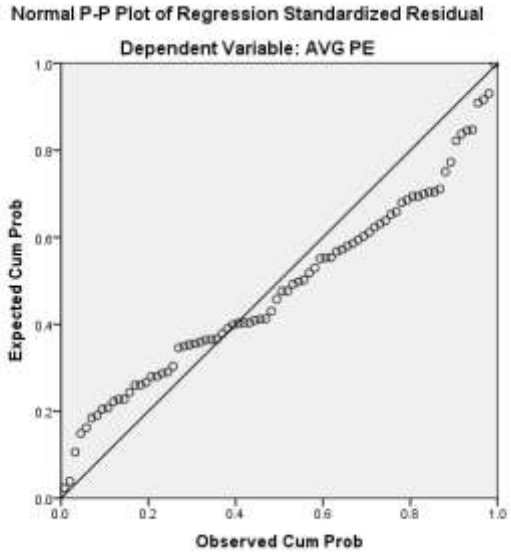


Chart 5.73

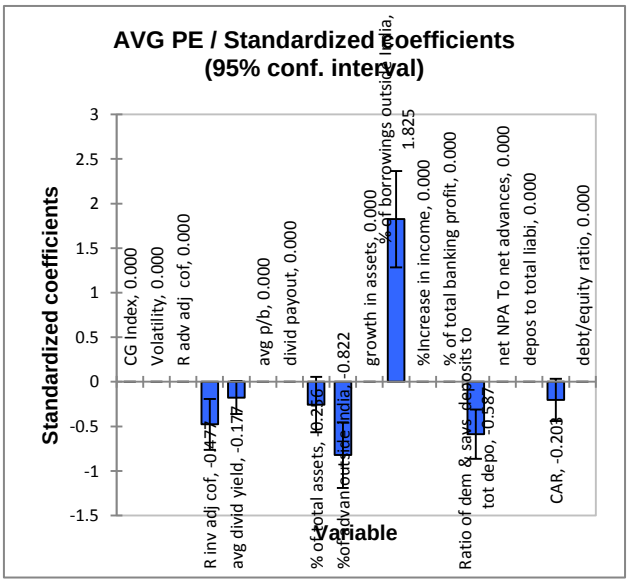


Chart 5.74

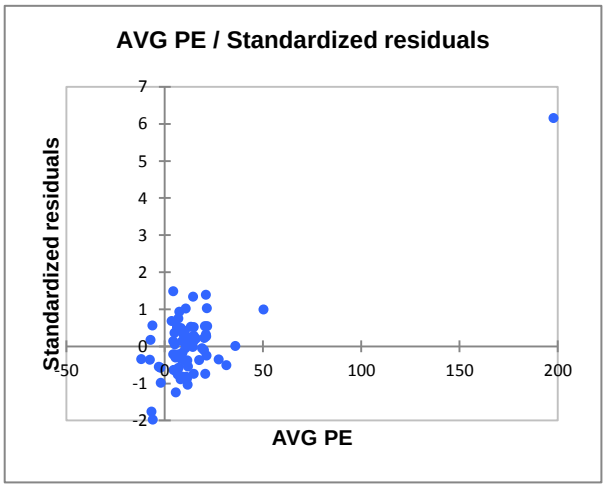


Chart 5.75

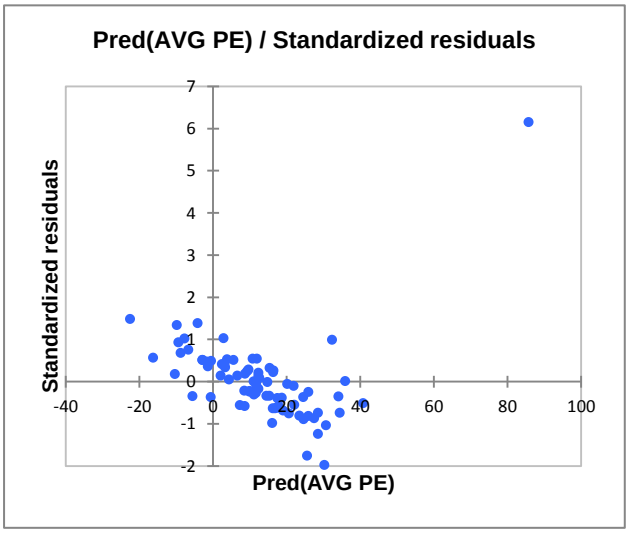


Chart 5.76

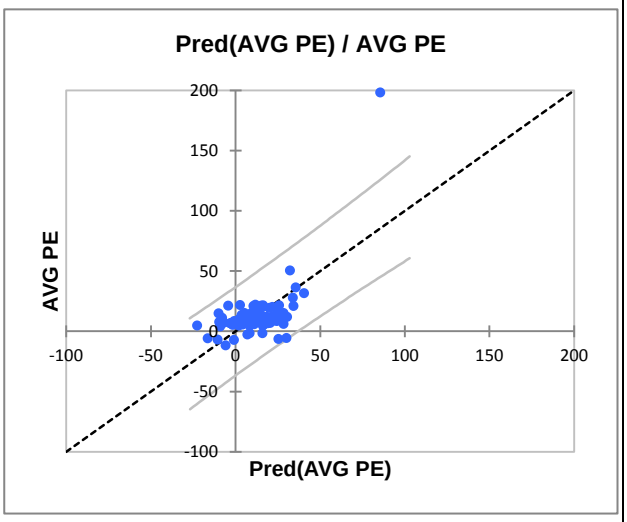


Chart 5.77

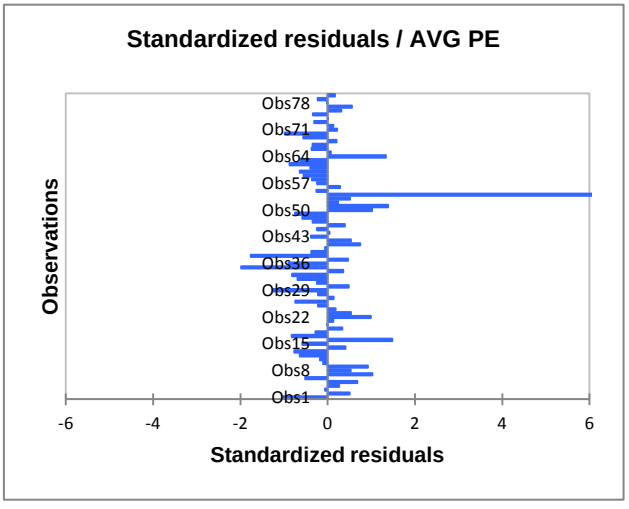
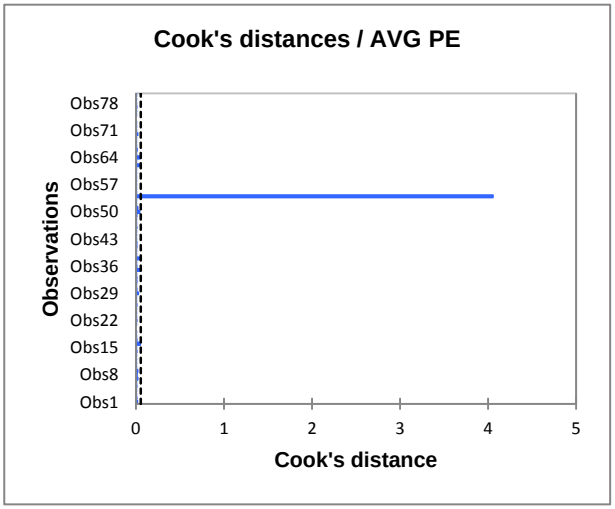


Chart 5.78



Interpretation (AVERAGE PE):

Using the Best model variables selection method, 7 variables have been retained in the model. Given the R2, 43% of the variability of the dependent variable AVERAGE PE is explained by the 7 explanatory variables.

Given the p-value of the F statistic computed in the ANOVA table, and given the significance level of 5%, the information brought by the explanatory variables is significantly better than what a basic mean would bring.

Based on the Type III sum of squares, the following variables bring significant information to explain the variability of the dependent variable AVERAGE PE: Return on Investments adjusted cost of funds% of advances outside India% of borrowings outside India Ratio of dem & deposits to total deposits.

Based on the Type III sum of squares, the following variables do not bring significant information to explain the variability the dependent variable AVERAGE PE: average dividend yield% of total assets CAR. You might want to remove them from the model.

Among the explanatory variables, based on the Type III sum of squares, variable CG Index is the most influential.

We could not find any statistically significant impact of the CG on financial performance of the banks. Therefore to further investigate the ipact of various componenets of CG on financial performance we have formulated certain hypothesis which we are going to test and analyse in the following section.

In our regression for prince earning ratio the minimum and maximum Cook's distance is .000 and 4.053 with mean of .057 comparing the mean CD of .057 with permissible CD of .05 indicates that most of the observations are on borderline viz. they are very near to the outliers.

Similarly if we analyse the Mahalanobis Distance the maximum and minimum MDs are 27.136 and .906 with mean of 6.913. The critical chi square values for 7df at .001 alpha level is 24.322 which is less than the maximum MD of 27.136. This indicates that some of the observations are outliers, but when we compare the mean MD of 6.913 to the critical value it suggests that most of the observations fit will into the regression model.

FORMULATION AND TESTING OF HYPOTHESES

In this section we are going to focus on impact of seven corporate governance practices on financial performance of banks.

In order to address this issue we develop research hypothesis relating banks performance with seven corporate governance practices (board size, board composition, existence of board committees, audit committee, size and membership, board remuneration and women directorship).

Based on our objective we have developed the following hypotheses regarding corporate governance practices.

- **H1: Performance of Indian Banks is not significantly related to the size of the board of directors.**
- **H2The performance of Indian Banks is positively related to the proportion of non executive/independent directors**
- **H3:The performance of Indian Banks is positively related to the existence of audit and remuneration committee**

- **H4:The performance of Indian banks is negatively related to the size of the audit committee**
- **H5: The performance of Indian banks is positively related to the proportion of independent directors on the audit committee**
- **H6:The performance of Indian banks is positively related to incentive executive pay**
- **H7: The performance of Indian banks is related to proportion of female members on the board of directors.**

The **independent variables** that we consider for this study are: Board size, board composition, existence of board committees, audit committee, size of the audit committee, composition of the audit committee, board remuneration and presence of woman director on the board.

Board size (BS) is explained as the number of directors on the board as on the last day of the financial year. It is calculated by taking logarithm of the number of directors on the board.

Board composition is explained as the mix of inside (executive) and outside (non-executive, Independent directors on the Board. This variable is captured by considering the percentage of Non-Executive directors (NE) and Independent Directors (IN) on the Board.

Existence of Board Committees is taken as Dummy Variable; each variable takes value of 1 if the board committee is in existence and otherwise. The three committees which we take into consideration are Audit committee, remuneration committee and nomination committee.

The audit committee performance has vital importance on the operational management of banks. This variable is captured by considering the size of the committee (SAC) and the percentage of independent directors who are the members of the committee (INAC).

Board remuneration is much of a debated issue .If we analyze the remuneration paid to board members in the context of their individual net worth, salary, social and professional reputation and prestige the remuneration does not make much of difference to them and their efforts at the board, but at the same time there is no denying the fact that monetary compensation does plays an important role in board functioning. In India there is a major difference between board remuneration policies of Public and Private Sector banks. We take board remuneration as dummy variable, which takes value of1 if present and 0 otherwise.

The last variable that we consider is the presence of women director (WO) on the board, This variable is captured by taking the percentage of women directors on the board,.

Dependent Variables:

Concerning the profitability variables we consider two measure of financial performance: ROE, ROA.

The last financial measure is of critical importance in context of Indian Banking Sector, especially in the context of State Owned Banks.

Method

Thus the analysis has been done based on the following regression equation.

$$ROA = \alpha + \beta 1BS + \beta 2NE + \beta 3IN + \beta 4WO + \beta 5NC + \beta 6SAC + \beta 7INAC + \beta 8BR + \varepsilon$$

$$ROE = \alpha + \beta 1BS + \beta 2NE + \beta 3IN + \beta 4WO + \beta 5NC + \beta 6SAC + \beta 7INAC + \beta 8BR + \varepsilon$$

The regression equation has been based on the variables which provide the maximum adjusted $R^{2,}$ therefore some of the variables in the above stated equations have been dropped for final

analysis. The dropped variables are not statistically significant as their p values are greater than.05 and t ratios are lesser than 1.96.

When the dependent variable is ROA the model summary and ANOVA statistics is as per the following tables.

Table 5.83: Model Summary and ANOVA

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.780[a]	.609	.577	.37257191700000	.609	18.936	6	73	.000	1.992

a. Predictors: (Constant), Remuneration, log, existence of audit and remuneration committee, proportion of non executive/independent directors, size of the audit committee, proportion of independent directors on the audit committee

b. Dependent Variable: 21. Return on assets

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.771	6	2.628	18.936	.000[b]
	Residual	10.133	73	.139		
	Total	25.904	79			

a. Dependent Variable: 21. Return on assets

b. Predictors: (Constant), Remuneration, log, existence of audit and remuneration committee, proportion of non-executive/independent directors, size of the audit committee, proportion of independent directors on the audit committee

Using the Best model variables selection method, 6 variables have been retained in the model.

Given the R2, 61% of the variability of the dependent variable Return on assets is explained by the 6 explanatory variables.

Given the p-value of the F statistic computed in the ANOVA table, and given the significance level of 5%, the information brought by the explanatory variables is significantly better than what a basic mean would bring.

Based on the Type III sum of squares, the following variables bring significant information to explain the variability of the dependent variable 21. Return on assets: proportion of non executive/independent directors existence of audit and remuneration committee size of the audit committee Remuneration.

Based on the Type III sum of squares, the following variables do not bring significant information to explain the variability the dependent variable 21. Return on assets: log of board size, proportion of independent directors on the audit committee. You might want to remove them from the model.

Among the explanatory variables, based on the Type III sum of squares, variable proportion of female members on the board of directors is the most influential.

In order to test our hypotheses we examine the t ratio and p values associated with the Coefficients of the variables under analysis.

Table 5.84: Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Co linearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.506	.879		.576	.566		
	Log of Board Size H_1	.299	.298	.090	1.004	.319	.675	1.481
	proportion of non executive/independent directors H_2	-1.510	.406	-.450	-3.717	.000	.370	2.702
	existence of audit and remuneration committee H_3	.654	.309	.278	2.118	.038	.315	3.174
	size of the audit committee H_4	-.134	.035	-.475	-3.883	.000	.364	2.750
	proportion of H_5 independent directors on the audit committee	.493	.258	.287	1.912	.060	.241	4.149
	proportion of female members on the board of directors H_7	.171	.667	.020	.257	.798	.870	1.150
	Remuneration H_6	.603	.164	.529	3.670	.000	.261	3.834
a. Dependent Variable: 21. Return on assets								

Looking at the t statistics and p values from the table no.5.84 we are able to confirm all our hypotheses except hypotheses no. H_2, H_5 and H_7.

In the above regression estimate we observe a non significant relationship between board size and banks performance. As is evident from our sample also the banks having highest market capitalization and lowest market capitalization have nearly the same board size. The empirical evidence so far available are still inconclusive about the effect of board size on the firms financial performance. From this it can be argued that rather than the size it is the competencies of the board members (which are difficult to measure) which impact the financial performance of banks.

Hypotheses H2 and H5 which deals with Proportion of independent/non executive directors on board have a significant negative relationship.

As far as proportion of independent directors on and audit committee of board is considered it has non-significant relationship on performance.

Our findings are in line with the findings of ,(Belkhir,2009), the main argument being the cost associated with the outside directors in form of fees, travel expenses, commission on profit,

stocks and stock options. Other studies too have considered the cost and the associated negative effect of having high number of outside directors on the board (Lorsch and Mclever,1989,Baysinger and Hoskisson,1990; Denis and Sarin1999;Ruigork et al.,2006).The main line of argument being the paucity of time and lack of awareness about the organizational decision making process.

As far as the proportion of female members is considered, this variable was found to be highly influential, i.e. an **influential observation** is an observation, deletion of which from the dataset would noticeably change the result of the calculation. In regression analysis an influential point is one whose deletion has a large effect on the parameter estimates. However taking it into consideration, we cannot find any significant relationship between the proportion of female directors on the board and positive relationship on firms performance.

When the dependent variable is ROE the model summary and ANOVA statistics is as per the tables

Table 5.85: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.486[a]	.236	.206	5.669996635000000	.236	7.847	3	76	.000	1.909
a. Predictors: (Constant), Remuneration, proportion of non executive/independent directors, proportion of independent directors on the audit committee										
b. Dependent Variable: 22. Return on equity										

Table 5.86: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	756.779	3	252.260	7.847	.000[b]
	Residual	2443.313	76	32.149		
	Total	3200.092	79			
a. Dependent Variable: 22. Return on equity						
b. Predictors: (Constant), Remuneration, proportion of non executive/independent directors, proportion of independent directors on the audit committee						

Using the Best model variables selection method, 3 variables have been retained in the model. Given the R2, 24% of the variability of the dependent variable 22. Return on equity is explained by the 3 explanatory variables.

Given the p-value of the F statistic computed in the ANOVA table, and given the significance level of 5%, the information brought by the explanatory variables is significantly better than what a basic mean would bring.

Based on the Type III sum of squares, the following variables bring significant information to explain the variability of the dependent variable 22. Return on equity: proportion of non executive/independent directors Remuneration.

Based on the Type III sum of squares, the following variables do not bring significant information to explain the variability the dependent variable 22. Return on equity: proportion of independent directors on the audit committee. One might want to remove them from the model.

Among the explanatory variables, based on the Type III sum of squares, variable log is the most influential.

However in order to verify our hypotheses we run the regression model with all the variables included ,the t and p values are as depicted in table no.

Table 5.87: Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Co linearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	14.900	2.466		6.043	.000		
	proportion of non executive/independent directors	-14.261	4.973	-.382	-2.868	.005	.565	1.770
	proportion of independent directors on the audit committee	4.794	3.339	.251	1.436	.155	.328	3.045
	Remuneration	5.335	2.357	.422	2.263	.026	.289	3.457
a. Dependent Variable: 22. Return on equity								

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Co linearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	23.436	13.456		1.742	.086		
	Log	-2.040	4.567	-.055	-.447	.656	.675	1.481
	proportion of non executive/independent directors	-18.649	6.223	-.500	-2.997	.004	.370	2.702
	existence of audit and remuneration committee	1.773	4.726	.068	.375	.709	.315	3.174
	size of the audit committee	-.483	.529	-.154	-.914	.364	.364	2.750
	proportion of independent directors on the audit committee	5.557	3.949	.291	1.407	.164	.241	4.149
	proportion of female members on the board of directors	-10.011	10.222	-.107	-.979	.331	.870	1.150
	Remuneration	5.154	2.514	.407	2.050	.044	.261	3.834
a. Dependent Variable: 22. Return on equity								

The above table depicts the coefficients of regression equation under best model fit and all the variables. Analysing the t and p - values leads us to the confirm our hypothesis no. H2 and H6.All other hypothesis are not confirmed as the t value is less than 1.96 and p values associated are not significant.

CONCLUSION

The basic objective of this study is to quantify the impact of corporate governance on the financial measures used to gauge the performance of financial institutions. The measure adopted is ROE, ROA, P/E ratio and investment return. For all of these measures we found that the corporate governance parameter has insignificant impact. One of the important proxy for corporate governance is the NPA ratio, higher the NPA ratio worse is the corporate governance, but that too was found to be an insignificant variable in our study. Our results are in line with the various previous studies, which report insignificant and obscure relationship between corporate governance and banks financial performance.

Theoretically a higher score on corporate governance should result in higher financial performance, but the same is not reflected in any of the studies so far. This paradox can be explained by the way the corporate governance is defined and measured. Corporate governance in nutshell is adherence with the prevailing rules and in a transparent and unbiased fashion and reporting the same. The existing corporate governance standards are binary in nature, abiding by the rules and regulations irrespective of the outcome will generate full score on corporate governance front. The outcome of the process is not taken into consideration for calculating corporate governance score. Take for example the audit committee, the existence. Structure and frequency of meetings would generate full score for this parameter irrespective of the fact about the efficiency of the audit committee in enhancing internal controls, avoiding audit qualifications etc.

In the annual report of all the surveyed banks, none of the banks ha reported the agenda of the various committees of the board nor were the minutes of these committees available in the annual report or the website of the banks. This gives rise to the problem of asymmetric information especially for retail investors.

To conclude, if the corporate governance mechanism has to be effective than the measures of the corporate governance has to be reported in a more transparent fashion and has to be linked to the outcome of that particular process.

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