

# Independent Auditors Report

To  
The Members of  
**The Jammu & Kashmir Bank Limited**

## Report on Standalone Financial Statements

1. We have audited the accompanying standalone financial statements of **THE JAMMU AND KASHMIR BANK LIMITED** (the "Bank") as at **March 31, 2018** which comprise the Balance Sheet as at March 31, 2018 and the Profit and Loss Account and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information. Incorporated in these financial statements are the returns of 61 branches/offices audited by us and 880 branches audited by Statutory Branch Auditors. The Branches/offices audited by us and those audited by other auditors have been selected by the Comptroller & Auditor General of India in accordance with the guidelines issued to the Bank by the Reserve Bank of India.

## Management's Responsibility for the Standalone Financial Statements

2. The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and provisions of Section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

3. Our responsibility is to express an opinion on these standalone financial statements based on our audit.

4. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under.

5. We conducted our audit of the Bank including its branches in accordance with Standards on Auditing ('the Standards') specified under section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.
6. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Bank's Directors, as well as evaluating the overall presentation of the financial statements.
7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

## Opinion

8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 in the manner so required for banking companies and give a true and fair view in conformity with accounting principles generally accepted in India of the state of affairs of the Bank as at 31st March, 2018, and its profit and its cash flows for the year then ended.

## 9. Emphasis of Matter

- (i) We draw attention to matter set out in Note No.4, that the Bank recognized Deferred Tax Asset (DTA) as per AS-22 on the difference in the provision for NPA as per books of accounts and Income Tax Act, 1961, amounting to ₹ 238.18 crores by including the same in tax expenses with a corresponding credit to extraordinary income. Our opinion is not modified in respect of this matter.
- (ii) We also draw attention matter set out in Note No. 9 regarding deferment of additional provision requirement on account of the enhancement in gratuity limits as per the amendment dated 29 March, 2018 in Payment of Gratuity Act, 1972 in terms of RBI approval vide letter no. DHR.BP.9730/21.04.018/2017-18 dated 27th April, 2018, and the unamortized balance

as at 31st March, 2018 of ₹ 37.42 crores. Our opinion is not modified in respect of this matter.

- (iii) We also draw attention matter set out in Note No.12 regarding Rehabilitated/Restructured advances in view of flood during 2014 and disturbance during 2016, Bank rehabilitated affected borrowal accounts. The total amount of Rehabilitated/Restructured advances stood at ₹ 4117.59 crores (Previous year ₹ 3265.83 crores). The rehabilitation included funding of loss suffered by the borrowers, deferment of instalments of term loans and funding of interest on these accounts. The Bank has recognized funded interest aggregating ₹ 796.02 crores as interest income upto 31st December, 2017. The Bank has capitalized funded interest (net of recoveries) of ₹ 510.10 crores by staggering in five quarters beginning with 1st quarter ended 31st March, 2018 in compliance of dispensation to the Bank by Reserve Bank of India. Accordingly, the Bank has created Interest Capitalization of ₹ 102.62 Crores by corresponding debit to interest income in Profit and Loss account. Our opinion is not modified in respect of this matter.

#### Report on Other Legal and Regulatory Requirements

10. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014.
11. The Comptroller and Auditor General of India has issued directions indicating the areas to be examined in terms of sub-section (5) of section 143 of the Companies Act, 2013, the compliance of which is set out in "Annexure-A" to this Report.
12. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
  - the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;
  - the returns received from the offices; and branches of the Bank have been found adequate for the purposes of our audit.

13. Further, as required by section 143(3) of the Act, we further report that:

- we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
- the reports on the accounts of the branch offices audited by branch auditors of the Bank under section 143(8) of the Companies Act 2013 have been sent to us and have been properly dealt with by us in preparing this report;
- the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
- in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, to the extent they are not inconsistent with the accounting policies prescribed by RBI;
- on the basis of written representations received from the directors as on 31st March, 2018 taken on record by the Board of Directors, none of the directors is disqualified as on 31st March, 2018 from being appointed as a director in terms of Section 164(2) of the Act;
- with respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure B" to this report;
- with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
  - the Bank has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule 12 - Note 26.12 to the financial statements;
  - the Bank did not have any, on long term contracts including derivative contracts for which there were any material foreseeable losses;
  - there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank.

For **O P Garg & Co.**  
Chartered Accountants  
FRN:01194N

**(CA.Vikram Garg)**  
Partner  
M.No.097038

For **Verma Associates.**  
Chartered Accountants  
FRN:02717N

**(CA.MadanVerma)**  
Partner  
M.No.081631

For **P C Bindal & Co.**  
Chartered Accountants  
FRN:03824N

**(CA.Rajan Gupta)**  
Partner  
M.No.090330

For **K.K.Goel & Associates.**  
Chartered Accountants  
FRN:05299N

**(CA. Amit Goel)**  
Partner  
M.No.098913

Place : Srinagar  
Dated : 30<sup>th</sup> May, 2018

**Annexure-A to para 13 of independent auditor's report of even date on the standalone financial statements  
of Jammu and Kashmir Bank Limited.  
Directions/sub-directions of Comptroller and Auditor General of India under Section 143(5) of  
Companies Act 2013 for F.Y. 2017-18**

Sl. No.	Directions/Sub directions	Auditor's comments including action taken wherever required	Impact on accounts and financial statements
1.	Whether the company has clear title/lease deeds for free-hold and leasehold land respectively? If not please state the area of freehold and leasehold land for which title/lease deeds are not available.	As per information and explanations given to us, the Bank does not have clear title/lease deeds for freehold and leasehold lands for the following properties:- <b>S.No Land Area</b> 1) Vashi, Mumbai (1st Floor) 5400 Sq.ft 2) Budgam 4 Kanals 3) Ansal Plaza, Khelgaon, Delhi 17787 Sq.Ft. 4) Kargil 1 Kanal 4 Marla 5) Currency Chest Kulgam 2 Kanals It is advised to complete the documentation for clear title at the earliest.	The acquisition value of the said lands/ properties has been capitalized and the value as on 31.03.2018 is ` 26.73 crores.
2.	Please report whether there are any cases of waiver/ write off of debts/loans/interest etc., if yes, the reasons there for and the amount involved.	There are cases of waiver/write off of debts/ loans/ interest etc. amounting to ` 15.17 crores in addition to the waiver of unapplied interest of ` 199.99 crores on account of negotiated settlement with the borrowers defaulting in payment due to the circumstances beyond their control such as death/disappearance of the borrower, recession in economy, no enforceable security, natural calamities such as earthquake, flood, drought, change in Govt. policy, genuine business failure in-spite of sincere efforts made by borrower etc. and where the recovery chances through normal business operations are bleak. During the financial year six accounts (NPA) were sold to Asset Construction Companies (ARC) having total principal NPA balance of ` 1606.35 Crores, and unapplied interest of ` 468.40 Crores against sale proceeds of ` 948.45 Crores resulting in sacrifice of ` 1126.30 Crores.	Waiver/Write off resulted in loss of ` 215.16. Sale of NPAs to ARC resulted in release of Provision held by ` 389.15 Crores and increase of profits by equivalent amount. This has also resulted in reduction in NPAs by 1606.35 Crores.
3.	Whether proper records are maintained for inventories lying with third parties & assets received as gift from Govt. or other authorities	As per explanations given to us, the company has not received any assets as gift/grant(s) from government or other authorities. The company has no inventories lying with third parties.	NIL
4.	Whether the restructuring of loan was done as per the provisions of the Reserve Bank of India and Bank's own Restructuring of loan Policy.	As per information and explanations given to us, the bank has restructured loans. Restructuring of loans done during the year was as per the provisions of the Reserve Bank of India and Bank's own Restructuring of loan Policy.	There was no material impact on Financial Statements.
5.	Whether the Bank is maintaining/developing various assets of the State Govt. The treatment of the assets and expenditure incurred and revenue earned may be examined and comment may be offered.	As per information and explanations given to us, the bank is maintaining/developing Parks and Gardens including Golf Course which are not owned by the bank. The bank has incurred 31.99 Crores in addition to opportunity cost of deployment of Staff for maintaining and development. The expenditure has been incurred as part of CSR expenditure.	The expenditure amounting to ` 31.99 crores have been incurred and revenue of ` 1.76 crores has been earned for maintaining/ developing parks/gardens and amounts have been debited/ credited to the Profit and Loss Account under CSR.

Sl. No.	Directions/Sub directions	Auditor's comments including action taken wherever required	Impact on accounts and financial statements
6.	Whether the branches were doing window dressing and its impact/materiality on the overall deposit portfolio.	As per the reports of the Branch Auditors, some branches attempted window dressing by inflating deposits aggregating ` 3.84 Crores at the reporting date which were repaid immediately after close of the year.	There has resulted in overstatement of Deposits and Advances by ` 3.84 crores. However impact was not material on the overall deposit portfolio.
7.	Whether the Bank has been able to achieve the targets under Priority sector lending, if not, impact on the financial health of the Bank by lending the shortfall amount in Rural infrastructure Development Fund, Small industrial Development Bank of India, etc. may please be brought out.	As per information and explanations given to us, the Bank has not been able to achieve the targets under priority sector lending. As a result of shortfall, the bank has to made deposits of low yield interest with the following designated agencies as on 31-03-2018:  <b>Particulars</b> ( ` in Crores) NABARD/RIDF 1873.82 SIDBI 375.96 NHB 257.78 Total 2507.56	The impact on the financial health is lower rate of return of interest ranging from 3.25% p.a. to 5% p.a. received from the agencies with which deposits were made for shortfall.
8.	Whether there were cases of greening of advances, up-gradation of loan account at the fag end of the Financial Year or delay/non- declaration of Non-performing Assets as per RBI guidelines. Its impact on the profitability and Asset Classification.	Advances amounting to ` 305.19 crores were not declared as NPA as per RBI guidelines which were downgraded after those were identified by the Statutory Auditors and additional provision of ` 64.67 Crores and reversal of unrealised interest ` 22.94 Crores was suggested.	Had the Auditors not identified the said NPAs, the advances of ` 305.19 Crores would have been shown as standard assets. The impact thereof on increase of profit is as follows: 1. Interest Reversal ` 22.94 Crores 2. Increase in NPA Provision ` 64.97 Crores
9.	A report on age-wise analysis of pending legal/arbitration cases including the reasons of pendency and existence/ effectiveness of a monitoring mechanism for expenditure on all legal cases (foreign and local) may be given.	There are 469 Cases involving ` 385.24 Crores pending legal/arbitration cases being claims against the bank not acknowledged as debts.	There was no such item in pending legal/arbitration cases which required provisioning.

For **O P Garg & Co.**  
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**(CA. Amit Goel)**  
Partner  
M.No.098913

Place : Srinagar  
Dated : 30th May, 2018

## Annexure-B to Independent Auditor's report of even date on the standalone financial statements of Jammu and Kashmir Bank Limited.

### Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

1. We have audited the internal financial controls over financial reporting of **Jammu and Kashmir Bank Limited** ('the Bank') as at 31st March, 2018 in conjunction with our audit of the standalone financial statements of the Bank for the year ended on that date.

### Management's Responsibility for Internal Financial Controls

2. The Bank's Board of Directors is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the "Assessment of Adequacy of Internal Financial Controls Over Financial Reporting" in line with the Guidance Note on Audit of Internal Financial Controls over Financial Reporting ("Guidance Note") issued by the Institute of Chartered Accountants of India ('the ICAI'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013 ('the Act').

### Auditor's Responsibility

3. Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') and the Standards on Auditing ('the Standards'), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.
4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining and understanding of

internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system over financial reporting.

### Meaning of Internal Financial Controls over Financial Reporting

6. A Bank's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control over financial reporting includes those policies and procedures that:
  - (a) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank;
  - (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and directors of the bank; and
  - (c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

### Inherent Limitations of Internal Financial Controls over Financial Reporting

7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Opinion

8. In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial

reporting were operating effectively as at 31st March 2018, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note issued by the ICAI.

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For **O P Garg & Co.**  
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Place : Srinagar  
Dated : 30th May, 2018