

वार्षिक रिपोर्ट
2006-07
ANNUAL REPORT



बैंक ऑफ बड़ौदा
Bank of Baroda
India's International Bank

एक सफलता से दूसरी सफलता की ओर...

From one success to another...



BOARD OF DIRECTORS



(L to R) Ms. Masarrat Shahid, Mr. Maulin A. Vaishnav, Mr. Manesh P. Mehta, Dr. Dharmendra Bhandari, Mr. G. C. Chaturvedi, Dr. Anil K. Khandelwal - Chairman & Managing Director, Mr. V. Santhanaraman - Executive Director, Mr. A. Somasundaram, Mr. Amarjit Chopra, Mr. T.K. Balasubramanian, Mr. Milind N. Nadkarni, Dr. Deepak B. Phatak.



महाप्रबंधक General Managers

वी. जे. संतानम	V.J. Santhanam	असित पाल	Asit Pal
के.के. अग्रवाल	K.K. Agarwal	वी.के. वर्मा (डॉ.)	V.K. Varma (Dr.)
एम.बी. सामंत	M.B. Samant	वी.के. विग	V.K. Vig
आर.के. गर्ग	R.K. Garg	रामदास शेणाय के.	Ramadas Shenoy K.
बी.जी. बारिया	B.G. Baria	पी.एस. जोशी	P.S. Joshi
जे.के. चंदर	J.K. Chandar	डी. सरकार	D. Sarkar
बी.ए. प्रभाकर	B.A. Prabhakar	के. एन. सुवर्णा	K.N. Suvama
ए.डी. परूलकर	A.D. Parulkar	अजय कुमार	Ajai Kumar
एस.पी. अग्रवाल	S.P. Agarwal	वी. शेषाद्री	V. Seshadri
डी.डी. महेश्वरी	D.D. Maheshwari	एन. रमणी	N. Ramani
एस.सी. कालिया	S.C. Kalia	एस.के. श्रीवास्तव	S.K. Srivastava
एम.एम. गाडगिल	M.M. Gadgil	दीपांकर मुखर्जी	Dipankar Mookerjee
जी.जी. जोशी	G.G. Joshi	ए.के. गुप्ता	A.K. Gupta

लेखा परीक्षक Auditors

टी. आर. चड्ढा एंड कं. सनदी लेखाकार T. R. Chadha & Co. Chartered Accountants	एस. वेंकटराम एंड कं. सनदी लेखाकार S.Venkataram & Co. Chartered Accountants	रे एंड रे सनदी लेखाकार Ray & Ray Chartered Accountants
जी. बासु एंड कं. सनदी लेखाकार G. Basu & Co. Chartered Accountants	जी.पी. कपाडिया एंड कं. सनदी लेखाकार G. P. Kapadia & Co. Chartered Accountants	बी.सी. जैन एंड कं. सनदी लेखाकार B. C. Jain & Co. Chartered Accountants

प्रधान कार्यालय बड़ौदा हाऊस, माण्डवी, वडोदरा 390 006.	बड़ौदा कार्पोरेट सेंटर सी-26, जी-ब्लॉक, बान्द्रा-कुर्ला कॉम्प्लेक्स, बान्द्रा (पू.), मुंबई 400 051.	निवेशक सेवाएं विभाग आठवां तल, बड़ौदा कार्पोरेट सेंटर, सी-26, जी-ब्लॉक, बान्द्रा-कुर्ला कॉम्प्लेक्स, बान्द्रा (पू.), मुंबई 400 051.	रजिस्ट्रार एवं अन्तरण एजेंट मैसर्स कार्वी कम्प्यूटरशेयर प्रा. लि. 46, एवेन्यू 4, स्ट्रीट नं. 1, बंजारा हिल्स, हैदराबाद 500 034.
Head Office Baroda House, Mandvi, Vadodara 390 006.	Baroda Corporate Centre C-26, G-Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051.	Investor Services Department 8th Floor, Baroda Corporate Centre, C-26, G-Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051.	Registrars & Transfer Agent M/s. Karvy Computershare Pvt. Ltd. 46 Avenue 4, Street No.1, Banjara Hills, Hyderabad 500 034.

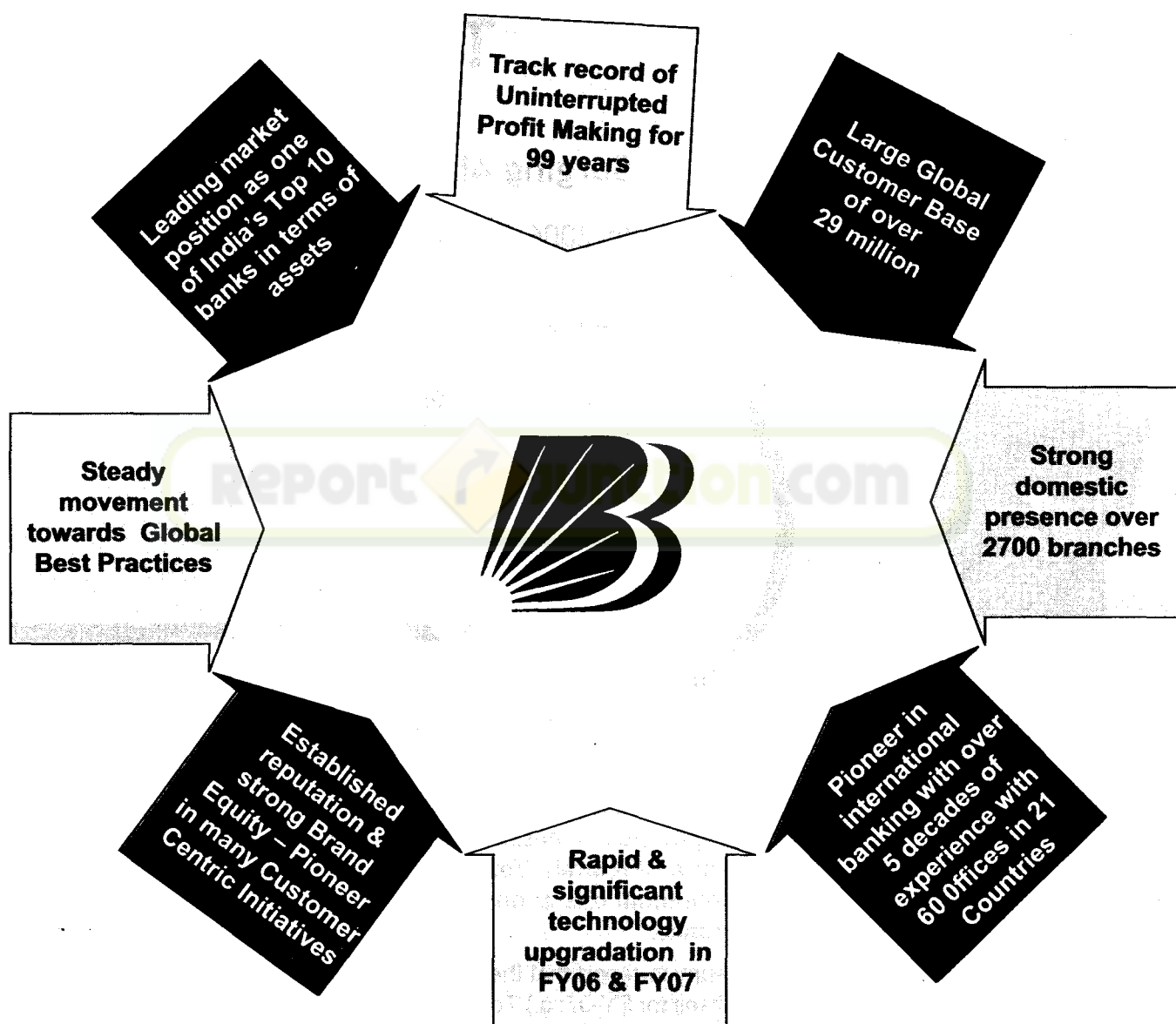


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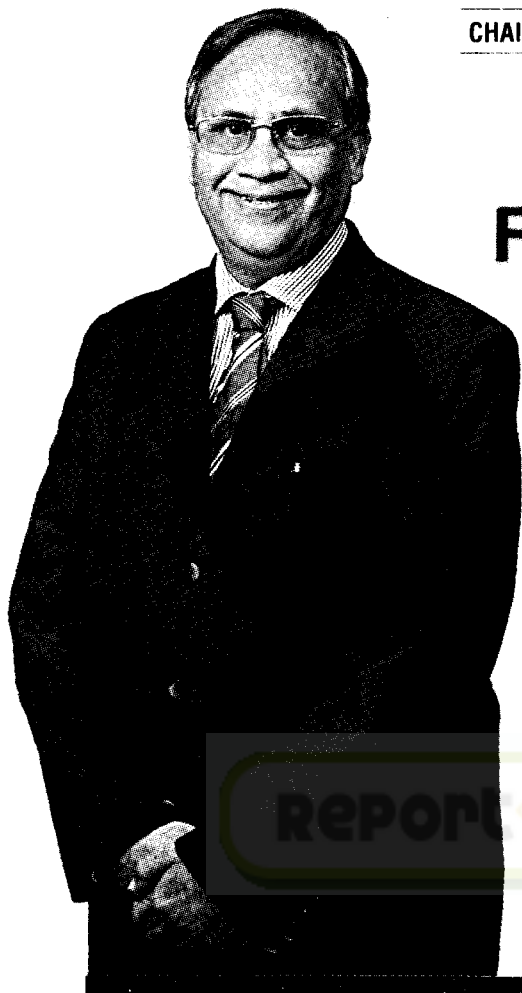


A Snapshot View





CHAIRMAN'S STATEMENT



From One Success To Another.....

Surging Ahead In Business Growth

In 2006-07, Bank of Baroda achieved record business growth and upgraded its technology platform.

Dr Anil K Khandelwal

Chairman & Managing Director

Report Junction.com

Dear Stakeholder,

Financial Year 2006-07 was quite eventful, as a number of initiatives started in 2005-06 were carried through and some new initiatives were added. Bank of Baroda continued to make excellent progress in 2006-07 achieving record new business, net profits, credit growth and considerable reduction in NPA levels. Your Bank has also achieved significant success in International operations and created new benchmarks for future performance.

I am happy to report that the Bank achieved all the 4 key objectives that it set for itself for FY-07: a.) To be a Rs.200,000 Crore Bank, b) CBS Branch Network to cross 1000, c) ATM Network to reach 1000, d) Global Net Profit to cross Rs.1000 Crore. I am further happy to share that the Bank could not only achieve but also surpass the targets set under "Statement of Intent" with the Government of India.

The Bank firmly moved towards implementation of "Multi-Specialist Banking", rolled out new Business Models for Wholesale, Retail and SME Segments; set-up a chain of 13 Retail and 16 SME Loan Factories across



the country; launched many new deposit and loan products, and added over 2.2 million to the Global Customer Base. The Bank today enjoys the trust and confidence of over 29 million customers around the globe.

New Initiatives:

During the year, we continued our momentum for transformation, for improving operational efficiency, speeding up the decision-making processes – all with a view to distinctly improve our response time to the customer. In our quest to add new revenue streams, we reorganized many business functions, entered into strategic tie-ups for distribution of third-party products, launched Wealth Management Services, signed MoU with a foreign partner for JV in Mutual Fund and identified a foreign partner for JV in Life Insurance. The year was also marked by rapid strides in expansion of CBS Network and ATM Network and launch of many e-banking products. In the International arena, we launched a new innovative online money transfer product “RapidFunds2India” from UAE, Oman and UK. An important step was to restructure Gujarat operations by merging erstwhile three zones into a unified Gujarat operations. The results have started showing up.

Business Performance Highlights:

On the Business front, we could firmly place the Bank on a higher growth trajectory. Global business growth recorded an all-time high of 35.79%.

Domestic credit growth was at a robust level of 33.53%, with Retail & SME credit given big thrust. With special efforts mounted, we could sharply improve the asset quality and bring down Gross NPA to less than 3% and Net NPA to 0.60%. With Integrated Risk Management Systems in place, the Bank is well placed for BASEL-II compliance.

Our International operations have always been a key

comparative advantage to the Bank. Overseas business grew by as high as 72%, contributing handsomely to the Bank's topline and bottomline. We expanded our network abroad reaching 60 Branches / Offices.

Employee Engagement:

I have always believed that it is the total engagement of employees at all levels that is crucial for Business results. Throughout the year, apart from monthly communication to employees, I have gone around the

country and addressed several groups of managers and employees, sharing with them the ambition of the Bank to reach Rs.200000 crores landmark, smooth implementation of Core Banking Solution (CBS), palpable improvement in customer Service and reducing customer response time in crucial business matters. In open houses with employees, I sought feedback from them about the operating environment and suggestions to improve the same. During these meetings, I have shared my concerns and impressed upon the need to improve skills to meet the new challenges. I called upon employees to increasingly participate in the Centenary Year KHOJ-II : an organization-wide Talent Identification and Development Programme. We also set in motion a number of new initiatives in HR such as Fast-Track promotion channels, management trainee scheme for placement at overseas Branches and intensive

Management Development programmes for developing our executives.

I am extremely delighted to find that our colleagues at operating level showed tremendous enthusiasm and aspiration to improve the level of business and customer service. It is gratifying that with the cooperation of all, we could achieve our ambition to achieve Rs. 200000 crores business.

2006-07 Highlights

**+ Rs. 200,000 Crore
Global Business Size**

**+ 35%
Worldwide Business
Growth**

**+ Rs. 1000 Crore
Net Profit**

**+ 29 Million
Global Customer Base**

**+ 1000
CBS Branches**

**+ 1000
ATMs**



Entering the Centenary Year:

This year is a special year for us in the Bank. On the 20th July 2007, the Bank will enter its Centenary Year. When we revisit the past, I feel inspired by the enormous contribution of our yesteryear leaders including the Visionary Founder who steered the Bank through all times and took the Bank to the premier status that it enjoys today.

The Road Ahead - Crafting a Bank of the Future:

It's a continuous journey. We in the Management Team are conscious of what we have inherited and are dedicating ourselves to craft a Bank for the Next Century. I and my Team are putting together a concrete agenda to pursue this goal - pursuing "Multi-Specialist Banking" Global Best Practices, deploying most modern technology, reskilling the employees, reaching out to the chosen markets and customers and continually innovating Business Models, Delivery Channels, Products and Services; constantly looking at systems, processes and structures to redesign them to modern day's requirements to respond to the emerging customers. We have also taken some first steps - Our Mumbai Main Office - flagship office of the Bank for many years - is being repositioned as a modern "One Stop Financial Supermarket". Over 100 Branches under CBS net are being positioned as "Branches of the Future".

Inspired by the grand vision of our Founder, the late Sir Maharaja Sayajirao Gaekwad - III of Baroda, we are fully committed to catapult the Bank into the top league and join the global banking community. Towards this, we plan to add atleast 10 Branches / Offices in different overseas locations across geographies, during the Centenary Year. We would also largely complete the process of technology upgradation and extend the boundaries of banking through our offering of a larger basket of financial services to the customers.

I do realize that what we have accomplished thus far is only a modest beginning and we have miles to go to realize our ambitions. In this endeavour, I solicit your continued cooperation and patronage.

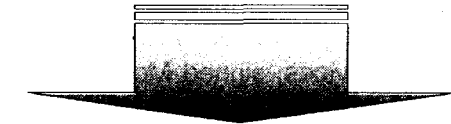
Anil K Khandelwal

Chairman & Managing Director

Corporate Strategy

STRATEGIC GOAL AND OBJECTIVE

To emerge as a OneStop Financial Supermarket, catering to different Business Segments in the chosen markets, in a cost effective and efficient manner.



CORE BUSINESS STRATEGIES

- Focus on Business Segmentation - move towards "Multi-Specialist Banking"
- Implement new initiatives to become Customer-Centric
- Aggressively market credit products to Mid Corporates and SMEs
- Continue Retail thrust - on both asset and liability sides
- High focus on Rural-Agri Banking through new Business Models
- Reduce cost of funds through mobilizing low cost deposits
- Adjust Pricing Strategy to reach ROAA of 1%
- Strengthen Bank's Corporate Brand Identity
- Enter new areas of business through partnerships, alliances and joint ventures



DIRECTORS' REPORT

Your Directors have pleasure in presenting the 99th Annual Report along with the Audited Statements of Account of your Bank for the Financial Year ended 31st March 2007 (FY-07).

SNAPSHOT OF PERFORMANCE

	FY-07	FY-06	Change
Global Business Size (Rs/Crore) (Deposits +Advances)	208,537	153,574	35.79% ↑
Gross Profit (Rs/Crore)	2,415.01	2,031.85	18.86% ↑
Net Profit (Rs/Crore)	1,026.47	826.96	24.13% ↑
Credit-Deposit Ratio (%)	74.35	67.15	10.72 ↑
Gross NPA (%)	2.47	3.90	1.43 ↓
Net NPA (%) – to Net Advances	0.60	0.87	0.27 ↓
Capital Adequacy Ratio (CAR) (%)	11.80	13.65	1.85 ↓
Business Per Employee (Rs/Lacs)	548	396	152 ↓

Segmentwise Performance: Treasury Operations contributed Rs.508.38 crore and Other Banking Operations contributed Rs.1,772.85 crore to the Segment Results of Rs.2,281.23 crore. The Bank earned Profit-after-Tax (PAT) of Rs.1,026.47 crore after deducting Rs.626.97 crore of unallocated expenditure and Rs.627.79 crore as provision for tax.

KEY FINANCIAL RATIOS

	FY-07	FY-06
Return on Average Assets (ROAA) (%)	0.80	0.79
Average Interest Bearing Liabilities (Rs/crore)	111,429.22	89,965.54
Average Cost of Funds (%)	4.87	4.31
Average Interest Earning Assets (Rs/crore)	117,105.08	97,301.66
Average Yield (%)	7.87	7.30
Yield Spread (%)	3.00	2.99
Net Interest Margin (NIM) (%) – to Interest Earning Assets	3.23	3.26
Cost-Income Ratio (%)	51.30	55.43
Net Worth (Rs/Crore)	8,436.08	7,619.73
Book Value per share (Rs/Crore)	231.59	209.18
EPS (Rs)	28.18	27.10

DIVIDEND:

Your Directors have declared Dividend of 60% for FY-07. Total outgo on this account, inclusive of taxes, will be Rs 252.46 crore.

CAPITAL ADEQUACY RATIO (CAR):

Your Bank's Capital Adequacy Ratio (CAR) as on 31st March 2007 is at a comfortable level of 11.80%. Capital base of the Bank was strengthened during the year by raising Rs.920 crore

through 8.95% Unsecured Redeemable Bonds.

NET WORTH:

Net Worth of the Bank as at 31st March 2007 was Rs 8,436.08 crore comprising of paid-up equity capital of Rs 365.53 crore and reserves (excluding revaluation reserves) of Rs 8,070.55 crore. An amount of Rs.774.01 crore was transferred to reserves from the profits earned.



OTHER PRUDENT MEASURES:

As a prudent measure, your Bank has made provision as under, on actuarial basis:

Item/Head	Amount of Provision made	Total Corpus Available
Contribution to Gratuity (Rs/Crore)	84.00	629.25
Contribution to Pension Funds (Rs/Crore)	375.00	1665.32
Contribution to Leave Encashment (Rs/Crore)	9.47	185.42
Contribution to Additional Retirement Benefits (Rs/Crore)	17.99	133.08
TOTAL	486.46	2,613.07

MANAGEMENT DISCUSSION AND ANALYSIS:

Economic Environment:

Indian economy has been on a high growth trajectory. It is now the fastest growing economy in the world, next only to China. The India Growth Story continues to hog the headlines around the world.

The Economic Survey forecasts the GDP growth in FY-07 at around 9.2%. Industrial sector is expected to grow by a robust 10% mark. The good thing is that the manufacturing sector is poised to grow in double digit by 11.3%. Services sector is also estimated to grow in double digit by 11.2%. Within this, financial, real estate and business services are gearing up for an estimated growth of 11.1%. However, the growth in agriculture and allied activities - expected to be at just 2.7% - is a matter of concern. This slow growth has endangered stability in consumer prices and resultantly, northward movement in inflation.

During 2006-07, the Indian Capital market scaled newer heights. Three 1,000-point milestones were scaled by the SENSEX- 12,000 on April 20, 13,000 on October 30 and 14,000 on December 5 - during the year. The 30-share benchmark BSE index ended 2006-07 with a growth of 15.9%. Indian corporates raised Rs.193,823 crore in 2006-07 through debt - 88% over the amount raised last year. Over 65% of the debt - Rs.124,923 crore - was raised from overseas markets through bonds, foreign currency convertible bonds and syndicated loans.

The Foreign Direct Investment (FDI) target of USD 12 billion for 2006-07 was breached in the first week of February itself and by March 2007, it touched USD 15 billion. And if the reinvested earnings were taken into account, the total FDI in 2006-07 would touch USD 18 billion as against USD 7.5 billion in the previous year. In terms of direct investment, the current financial year has been a landmark, as FDI inflows for the first time overtook FII inflows, indicating robust confidence in India.

The domestic Foreign Exchange Reserves (FER) almost touched USD 200 billion (or precisely USD 199.179 billion) on March 30. In a record accumulation, the country's FER has gone up by almost USD 50 billion in 2006-07 as compared to mere USD 10.41 billion in 2005-06. The Indian Rupee, which has been consistently gaining against the US\$, closed at an

8-year high of 42.92 on 5th of April. It has gained about 9.5% since reaching a three-year low in July last year.

At this juncture, macro fundamentals of the country's economy are strong and India continues to be a favoured investment destination. Besides IT sector, in which the country has gained global reputation, India is fast becoming a favourite destination for biotechnology, nano technology and as a manufacturing hub.

India's Services sector continues to grow, with knowledge economy contributing a lion's share to this sector. The country's status as an emerging economic and knowledge superpower is hitting the headlines around the world. India's vision to be part of the league of developed economies by 2020 is increasingly becoming realizable.

Banking Sector: Key Developments, Opportunities & Challenges:

The Indian financial system is proving to be more than resilient in coping with the vagaries of liberalization and globalization. The Indian banking system has been showing a steady growth of around 15%. Expansionary phase of the Indian economy has brought in its wake unprecedented spurt in bank credit - around 30% last year. In tandem with such large credit growth, banks have been experiencing pressure on their resources. The northward direction in the movement of interest rates has begun to strain the banking sector's bottomline. Banks have also been struggling to cope with the asset-liability mismatches. One relief granted by RBI is to allow banks to raise infrastructure bonds to balance their long term infrastructure financing.

Given the current upturn in the industrial cycle, the asset quality is improving. This is getting reflected in the declining gross and net NPA levels of many banks. Apart from corporate credit, retail credit has gained good momentum in the last 3-4 years. According to one estimate, India's retail banking business is set to grow at over 15% in the next five years. Prospects for FY-08 are good despite continuous hardening of interest rates on retail loans.

However, some leading indicators point out early signs of overheating. Although RBI feels that these signs of overheating