



सोत्साह रूपांतरण

TRANSFORMING WITH PASSION



बैंक ऑफ़ बड़ौदा
Bank of Baroda



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	पृष्ठ		Page
अध्यक्षीय वक्तव्य	24	Chairman's Statement	5
निदेशकों की रिपोर्ट	26	Directors' Report	7
ग्राफ	43	Graphs	43
महत्वपूर्ण वित्तीय सूचक	45	Key Financial Indicators	45
तुलन-पत्र	48	Balance Sheet	48
लाभ-हानि लेखा	49	Profit & Loss Account	49
नकदी-प्रवाह विवरणी	81	Cash Flow Statement	81
लेखा परीक्षकों की रिपोर्ट	83	Auditors' Report	83
समेकित वित्तीय विवरणियां	85	Consolidated Financial Statements	85
कार्पोरेट-नियंत्रण	113	Corporate Governance	113
नोटिस	141	Notice	141
ईसीएस / प्रॉक्सी फॉर्म / उपस्थिति पर्ची	145	ECS / Proxy Form / Attendance Slip	145

निदेशक मंडल Board of Directors



डॉ. अनिल के. खंडेलवाल
अध्यक्ष एवं प्रबंध निदेशक
Dr. Anil K. Khandelwal
Chairman & Managing Director



श्री ए.सी. महाजन
कार्यकारी निदेशक
Shri A. C. Mahajan
Executive Director



श्री विनोद राय
Shri Vinod Rai



श्री एच. एन. प्रसाद
Shri H. N. Prasad



श्री टी. के. बालासुब्रमणियन
Shri T. K. Balasubramanian



श्रीमती मसररत शाहिद
Smt. Masarrat Shahid



श्री मौलिन ए. वैष्णव
Shri Maulin A. Vaishnav



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Dr. Pradeep N. Khandwalla



डॉ. धर्मेन्द्र भंडारी
Dr. Dharmendra Bhandari



श्री मनेष पी. मेहता
Shri. Manesh P. Mehta



श्री दीपक बी. फाटक
Dr. Deepak B. Phatak



महाप्रबंधक General Managers

वी. जे. संतानम	वी.एस. हेगड़े	V.J. Santhanam	V.S. Hegde
के.के. अग्रवाल	डी.ए. पारेख	K.K. Agarwal	D. A. Parekh
एम.बी. सामंत	एस.पी. अग्रवाल	M.B. Samant	S.P. Agarwal
आर.के. गर्ग	एस. वैद्यनाथन	R.K. Garg	S. Vaidyanathan
बी.जी. बारिया	डी.डी. माहेश्वरी	B.G. Baria	D.D. Maheshwari
जे.के. चंदर	एस.सी. कालिया	J.K. Chander	S.C. Kalia
बी.ए. प्रभाकर	एम.एम. गाडगिल	B.A. Prabhakar	M.M. Gadgil
टी.के. कृष्णन	जी.जी. जोशी	T.K. Krishnan	G.G. Joshi
बी.पी. चक्रवर्ती	असित पाल	B.P. Chakraborty	Asit Pal
ए.डी. परूलकर	वी.के. वर्मा (डॉ.)	A.D. Parulkar	V.K. Varma (Dr.)
एस.सी. मेहता (डॉ.)	वी.के. विग	S.C. Mehta (Dr.)	V.K. Vig

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, वड़ोदरा 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.
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Registrars & Transfer Agent

M/s. Karvy Computershare Pvt. Ltd.
46 Avenue 4, Street No.1,
Banjara Hills,
Hyderabad 500 034.



Transforming with Passion

Dr. Anil K. Khandelwal
Chairman & Managing Director

Dear Stakeholder,

Fiscal 2005-06 was a momentous year for the Indian economy and for us at Bank of Baroda. We embarked on a major Brand identity change and launched Rahul Dravid as our Brand Ambassador, giving us improved visibility in the market place. We gave a big push to the transformational initiatives by signing up Hewlett Packard (HP) as System Integrator and Technology Partner, for roll out of Core Banking Solution and other technology applications. We launched a number of pioneering customer-centric initiatives like Flexi-timing Service and earned a reputation for being the market leader. Through a special savings campaign and launch of innovative products, we could add 2 million to our customer base. Bank of Baroda now enjoys the trust and confidence of over 27 million customers around the globe.

The year was also momentous for us for many other reasons. We could reverse the trend and place the Bank firmly on growth trajectory. Credit growth in particular was robust with retail asset

“ The year also saw... A major Visioning Exercise to reclaim the leadership spot ”

base given added thrust. With special efforts mounted, we could sharply improve asset quality and bring down Gross NPA and Net NPA. With Risk Management systems in place, the Bank is gearing for Basel-II compliance.

Our International Operations have always been a comparative advantage to the Bank. They posted robust growth and contributed handsomely to the Bank's bottomline during the year. We expanded our network abroad by adding 2 offices. Our ambition is to extend our global footprints to many more countries within the next few years.

We have the advantage of competent and committed staff across locations. With a view to harness their talent and provide opportunities for career growth, we launched many employee-centric initiatives, perhaps the first of their kind in the industry. Innovations in HR Management were given a big momentum during the year.

The year also saw us embarking on a major Visioning Exercise to catapult the Bank to the top league and reclaim the leadership spot by doubling our business size by 2009-10. This exercise also seeks to lay a strong foundation for transforming the Bank into a **modern financial conglomerate**, enabled by high technology. For assisting us in this process, we commissioned the services of a world-class Consultancy Firm. On their advice, a Unique Retail Loan Delivery Model is being implemented, in order to be an active player in the booming retail sector.

With the Indian banking industry slated to enter the phase of consolidation, Bank of Baroda will be exploring the opportunities for inorganic growth, even as it continues with traditional growth route.

We, in the Bank, are the inheritors of a glorious past, marked by financial prudence, professional acumen and strong business ethics. We believe that we are the gatekeepers of the Bank's unblemished past. Rooted in this history, I believe that our generation has a duty and responsibility to nurture and nourish the values that have stood by us all these years.

As we enter the centenary year of the Bank in 2007, I am fascinated and inspired by the grand vision of our founder the late Sir Sayajirao Gaekwad-III of Baroda. Having taken its birth in a small town – Baroda – the Bank has, over the years, grown into a behemoth, extending its reach to the nooks and corners

of the country and transcending many national boundaries. It weathered many crises and emerged stronger with passage of time. The Bank's long journey through the banking landscape has been a story scripted in vision, enterprise, financial prudence and corporate governance. It has also been a story of ordinary bankers taking the Bank to the premier status in the Indian banking industry that it occupies today, through their extra-ordinary contributions.

I am convinced in my mind that the best way we can pay tribute to our visionary founder is to architect and lay a strong foundation for creating a **Bank of the Future for the next century**. For this, we are preparing to quickly catapult the Bank into the top league and join the Global Banking community, adopting and implementing the best global practices, simplified processes, efficient delivery platforms, innovative business models and newer skill sets. We are also gearing up to quickly embrace high technology and transform the Bank into a customer-centric organization. To meet the emerging financial needs of diverse customer segments of the 21st century, the Bank would organize and **transform itself into a multi-specialist Bank and equally, as a One-Stop Shop for Financial Services, delivering World-Class Banking Experience to the customers.**

The measures initiated thus far are modest and I am aware that we have a long way to go in our journey to realize our aspirations. Even as we embark on this journey, I would like to place on record our gratitude for the contribution made by our yesteryear leaders and employees for the growth of the Bank.

Let me conclude by saying that the Bank is in good shape, with strong financials. And, I and my team in the Bank are passionately committed to take the Bank to greater heights. In this endeavour, I solicit your co-operation and continued patronage.



Anil K. Khandelwal
Chairman & Managing Director

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Ninety Eighth Annual Report of your Bank with the audited Balance Sheet, Profit & Loss account and the report on business and operations for the year ended March 31, 2006 (FY06).

FINANCIAL HIGHLIGHTS

- Total Business (Deposit + Advances) increased from Rs.1,24,734 crore to Rs.1,53,574 crore Growth by 23.12%.
- Gross Profit and Net Profit were Rs.2,031.85 crore and Rs.826.96 crore respectively. Net Profit registered a growth of 22.18% over previous year.
- Credit-Deposit Ratio stood at 67.15% against 55.82%.
- Retail Credit posted a robust growth of 53.21% - constituting 18.92% of Total Domestic Credit against 16.96% last year.
- Net Interest Margin (NIM) was at a healthy level of 3.31%.
- Net NPAs to Net Advances declined from 1.45% last year to 0.87%.
- Capital Adequacy Ratio (CAR) improved from 12.61% to 13.65%.

- Net Worth improved from Rs.5,391.00 crore to Rs. 7,619.73 crore a rise of 41.34%.
- Book Value improved from Rs.183.83 to Rs. 209.18.
- Business Per Employee moved up from Rs.316 lacs last year to Rs. 396.00 lacs.

DIVIDEND:

Directors have maintained the dividend of 50% on the enhanced capital for the year ended March 31, 2006, subject to Reserve Bank of India (RBI) approval. Total outgo in the form of dividend, including taxes, will be Rs.207.68 crore.

CAPITAL ADEQUACY RATIO (CAR):

Your Bank's Capital Adequacy Ratio (CAR) is at a comfortable level of 13.65% as on 31st March, 2006. During the year, the Bank strengthened its capital base by raising Rs.1,633 crore through a Follow On Public Offer and Rs.770 crore by way of sub-ordinated bonds (Tier-II capital). The Follow On Public Issue received an overwhelming response and was oversubscribed by 11.88 times, reflecting the market's strong confidence in the Bank's financials.

The Bank's net worth as at 31st March, 2006 was Rs.7,619.73 crore comprising of paid-up equity capital of Rs.365.53 crore and reserves (excluding revaluation reserves) of Rs.7,254.20 crore. An amount of Rs.619.28 crore was transferred to reserves from the profits earned during FY06.

KEY FINANCIAL RATIOS

Particulars	2005-06	2004-05
Return on Average Assets (ROAA) (%)	0.79	0.75
Average Interest Bearing Liabilities (Rs crore)	89,965.54	80,523.33
Average Cost of Funds (%)	4.31	4.29
Average Interest Earning Assets (Rs crore)	97,301.66	87,563.67
Average Yield (%)	7.30	7.34
Net Interest Margin (%)	3.31	3.40
Yield Spread (%)	2.99	3.05
Cost-income Ratio (%)	54.00	46.12
Book Value Per Share (Rs)	209.18	183.83
EPS (Rs)	27.10	23.08

OTHER PRUDENTIAL MEASURES:

As a prudent measure, your Bank has made provision towards contribution to gratuity (Rs.117.25 crore), pension funds (Rs.213.21 crore), leave encashment (Rs.20.53 crore) and additional retirement benefits (Rs.38.01 crore) on actuarial basis. Total provisions under these four categories amounted to Rs.389.00 crore during the year, against Rs.323.07 crore provided for during FY05. Total corpus available with the Bank at end March 2006 under these heads is: Rs.542.25 crore (gratuity), Rs.1,263.21 crore (pension funds), Rs.175.53 crore (leave encashment), and Rs.115.01 crore (additional retirement benefits).

INDIAN ECONOMIC LANDSCAPE:

Indian economy has been on a high growth trajectory in the recent years. GDP growth in 2005-06 is expected to be at 8.1%. Indian industry has witnessed a record growth rate of 9.4%. Agricultural sector has bounced back with a growth rate of 2.3%. Investment climate is full of confidence. India today is one of the most attractive investment destinations in Asia.

Stock market has been booming with sensex hovering over 10K mark. Inflation is contained at 4-5%. Interest rates have by and large remained stable especially, when viewed against pressures on liquidity. India's exports in 2005-06 have crossed US\$ 100 billion and Imports US\$ 140 billion. Foreign Direct Investment has crossed US\$ 7 billion during 2005-06 with expectation that it will touch US\$ 10 billion in 2006-07. Foreign Portfolio investment inflows have crossed US\$ 10 billion mark during 2005 and are expected to touch US\$ 15 billion in 2006. Foreign exchange kitty has been bulging it now stands at over US\$ 160 billion. All these are demonstrative of buoyancy in the economy.

India is emerging as an Economic & Knowledge Superpower. In less than a decade, India has emerged as the Electronic Back Office of the world. India is also emerging as Gem & Jewellery hub.

Government has raised the GDP growth rate bar to 10% for future years. In tune with this confidence, India is expected to be at the 4th place globally by 2020, with double digit growth. India's Vision is to be part of the league of developed economies by 2020.

Strong macro economic fundamentals have helped in creating a good investment climate. Indian banking sector can thus feel confident of a conducive growth environment during 2006-07.

Business Confidence Index of National Council of Applied Economic Research a barometer measuring the confidence factor of business leaders - reached the level of 151.4 by end-December, 2005 the highest level since November, 1994.

Going forward, we expect the same momentum to continue in the industrial and services sectors given the aggressive build up of productive capacities, congenial policy environment and

rising personal income levels and business optimism. The banking and capital market institutions are fully geared up to face the challenge of meeting the financial needs of Indian corporate sector.

However, as the Reserve Bank of India has warned through its Annual Monetary Policy 2006-07, our economy needs to prepare itself in FY07 for higher orders of pass-through into consumer prices, in respect of the overhang as well as the possibility of additional increases in crude prices in the future. Higher levels of international crude prices continue to pose a risk to economic growth and inflation for global economy in general and Indian economy in particular.

INDIAN BANKING SCENARIO:

Expansionary phase of Indian economy triggered by globalization and encouraging investment climate has brought in its wake unprecedented expansion in bank credit. However, in tandem with such surge in credit growth, banks have been experiencing pressures on their resources. Signs of steep hardening in market-determined interest rates are visible. Some banks have already raised their PLR and interest rates on retail loans particularly housing loans. Reckoning the difficulties faced by the banks, tax concessions on banks' time deposits for 5 years and above tenure have been announced in the recent Union Budget.

To meet the future competitive challenges against the backdrop of roadmap of banking industry beyond 2009, when they would be fully exposed to competition, banks are bracing themselves to be ready through adoption of newer technology, strengthening their capital base to become Basel-II compliant, reducing their NPAs, bringing down operating costs, undertaking organizational restructuring and sharpening their customer-centric initiatives. Emergence of a few large Indian banks through Merger and Acquisition route to effectively compete with large global banks may not be far off, when viewed against such preparedness and positive signs from regulators.

In the face of globalization for meeting various risks, banks are setting up robust enterprise-wide integrated risk management systems with high emphasis on developing risk management skills across the organization. Sensitizing the operating units of banks towards the integrated approach to risk management tools has, therefore, become essential. Thus, notwithstanding intense competition, the expansionary phase of the economy is expected to provide ample opportunities for the growth of banking industry.

Indian banking system is increasingly becoming competitive and is getting integrated with global banking. Banks are in a war game to acquire customers. Service delivery standards are being benchmarked to global standards. Technology and marketing are becoming the key differentiators.

Implementation of Basel-II norms is posing new challenges. Impaired assets are continuing to be a major area of concern. Banks are under increasing pressure to improve their profitability to meet the high operating costs and to shore up the capital.

Growth of Non-food credit of commercial banks was at an unprecedented level of 30.8% over the previous year. Despite the RBI's inflation-targeting approach, lending rates have not witnessed any sharp spikes to upset the economic momentum. Moreover, demand for bank credit has been broad-based led by agriculture, industry and personal loans (housing, credit cards, education sectors).

Banks have financed the sustained credit demand through liquidation of Government and Non-SLR securities, raising of capital through equity issuances, higher internal resources and deposit mobilization - deposit growth during the year posting a satisfactory level of 20.50%.

All in all, Competition, Consolidation & Convergence are becoming the main drivers of Indian banking.

GLOBAL ECONOMY AND THE INDIAN FINANCIAL SECTOR:

The management of Indian financial sector is slanted towards gradual rebalancing of efficiency and stability and the changing shares of public and private ownership.

The country has been adhering to a cautious and calibrated approach in its financial sector reforms and has adopted a "Roadmap Approach".

As per the roadmap drawn by Reserve Bank of India, foreign banks in India would be at par and will have level playing field with Indian banks by 2009.

standards in banking and in service delivery. Major innovations and initiatives in the arena of technology, banking products and processes, service delivery channels and human resources have been set in motion, with a view to providing world class banking experience to the Bank's customers across the globe.

In tandem with these initiatives and with a view to project a more modern and contemporary personality befitting the 21st century and reflecting the modern customers' aspirations, the Bank pioneered a major re-branding exercise, in the PSB segment. The 6th of June, 2005 was a new dawn for your Bank in many ways. This was the day the Bank launched its new brand identity 'THE BARODA SUN'.

The sun is the single most powerful source of light and energy. Its far reaching rays dispel darkness to illuminate everything they touch. At Bank of Baroda, we seek to be the source that will help all our stakeholders realize their goals. To our customers, we seek to be one-stop reliable partner who will help them address different financial needs. To our employees, we offer rewarding careers and to our investors and business partners, maximum return on their investment.

The logo's new colour reflects the rising sun, radiating its rays across the letterform 'BB'. The 2nd 'B' in the double 'B' letter appears like a bird flying across the morning sky. It is like the Bank flying into a dynamic state - always proactive, striving for change. Its new colour vermillion - a shade of orange - also signifies energy like the sun.



Globalization of Indian economy is producing a new class of Indian multinationals, which are on a spree to acquire companies abroad. Opportunities for funding such acquisitions are on the increase.

A NEW DAWN FOR BANK OF BARODA 'THE BARODA SUN':

With changing times and in tune with the changing customer aspirations across the globe, your Bank is also changing. It has set in motion a series of steps to transform itself into a modern, technology-enabled customer-centric, world-class banking organization, meeting best global practices and

With a view to position and project itself differently in the crowded market place - particularly among the public sector banks - the new brand also incorporates the tag line 'India's International Bank'. This tagline truly reflects the Bank's extensive global footprints and over 50 years of overseas experience.

The Bank implemented the re-branding programme across its over 2,800 locations in 21 countries in a record time of 53 days. The global roll out included external signages, stationery, collaterals, locators, identity cards, mementos and a host of other applications.