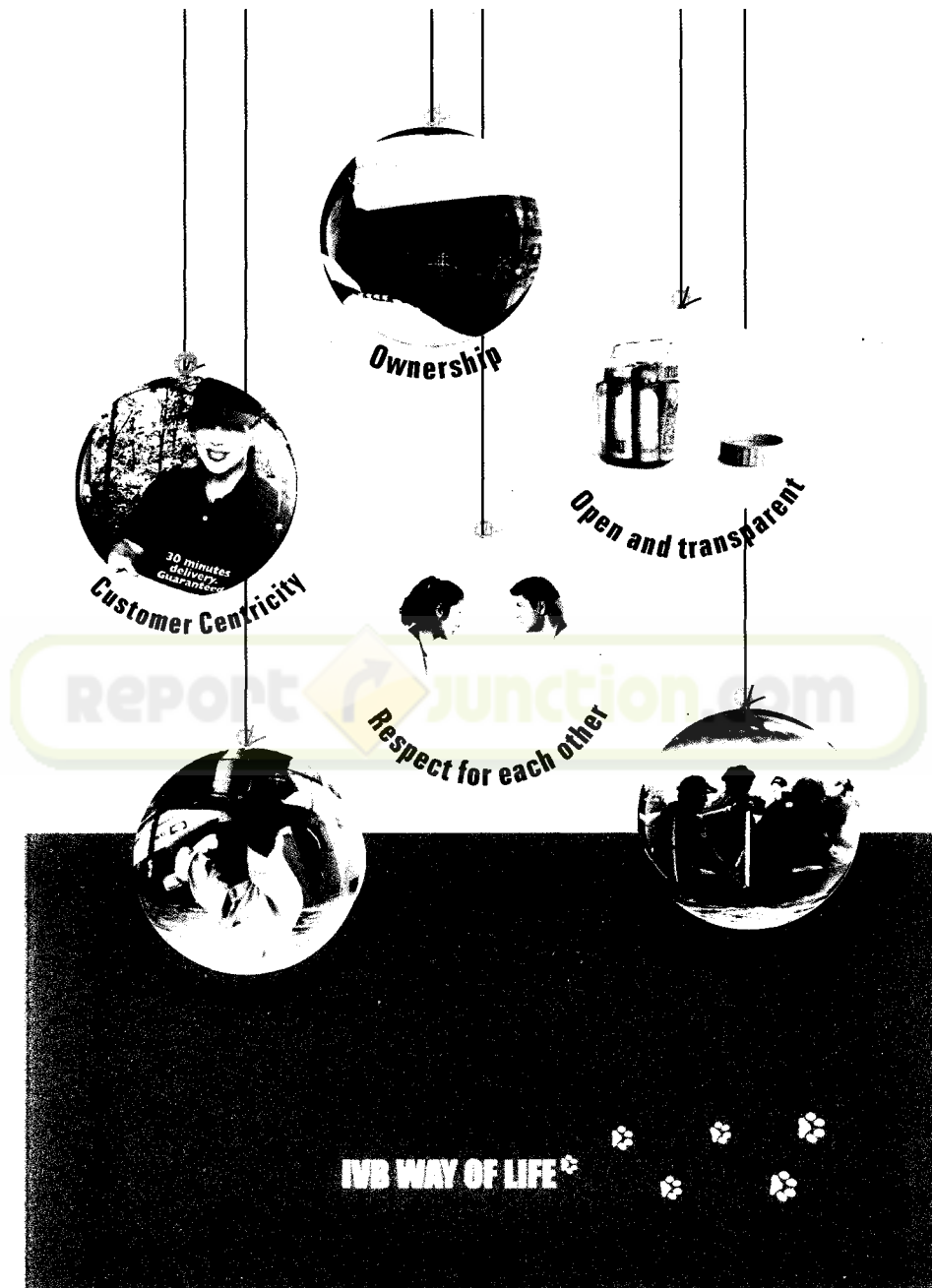


76th Annual Report 2006-07





IVB way of life reflects our organizational values for practice among employees, in work life, to ensure individual and organizational success.

Success is better assured with Teamwork. A team that is driven by a goal, passionate of what it does, focused on the customer, with an openness to accept change and empathise with each other. More importantly, own with pride the outcome.



### 76<sup>th</sup> ANNUAL GENERAL MEETING

Venue : Dr. B.R. Ambedkar Bhavana,  
Miller's Road, Vasanthanagar,  
Bangalore - 560 052

Day / Date : Thursday, June 28, 2007

Time : 10.30 a.m.

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G M Rao  
Chairman Emeritus

### BOARD OF DIRECTORS

K R Ramamoorthy  
Chairman

Vaughn Nigel Richtor  
Managing Director & CEO

Aditya Krishna (from 21<sup>st</sup> December 2006)

Arun Thiagarajan

Joseph J Kestemont (till 26<sup>th</sup> September 2006)

Lars Kramer

Luc Vandewalle (till 30<sup>th</sup> June 2006)

Prakash G Apte (till 18<sup>th</sup> October 2006)

Peter Alexander Smyth

Philippe Damas

Ryan Andrew Padgett

Richard Cox (from 13<sup>th</sup> July 2006)

Subrahmanian K R V

Wilfred Nagel

### COMPANY SECRETARY

K B V Narayan

### STATUTORY AUDITORS

M/s BSR & Co.,  
Chartered Accountants  
Mumbai

### ING VYSYA BANK LIMITED

Registered and Corporate Office  
ING Vysya House, No.22, M.G.Road  
Bangalore, 560 001

### Registrars & Share Transfer Agents

#### Karvy Computershare Private Limited

Unit: ING Vysya Bank Limited  
"Karvy House", 46, Avenue 4,  
Street No. 1, Banjara Hills,  
Hyderabad – 500 034  
Phone: 040-23420815  
Fax: 040-23420814



## SENIOR MANAGEMENT TEAM (as of May 15, 2012)

Vaughn Nigel Richtor  
Managing Director & CEO

Ashok Rao B  
Chief of Staff-Legal, Compliance & Vigilance

Donald Koch  
Chief Operating Officer (Ops & IT)

Bishwajit Mazumder  
Chief - Corporate Audit Group

Janak Desai  
Country Head -Wholesale Banking & Financial Markets

Jayant Mehrotra  
Chief Financial Officer

Narayan K B V  
Company Secretary

Ned Swarup  
Chief Risk Officer

Prasad JM  
Chief -Human Resources

Samir Bimal  
Country Head -Private Banking

Anjaneyulu K S R  
Regional CEO – AP

Radhakrishnan V S  
Regional CEO – Se AP

Sankarshan Rao Y  
Regional CEO -West

Sankar P  
Officiating Regional CEO-N & E

Report  Junction.com

## DIRECTORS' REPORT

The Board of Directors have pleasure in presenting the Seventy Sixth Annual Report of your Bank together with the Audited Statements of accounts for the year ended March 31, 2007, Auditors' Report thereon and other documents and statements as are required.

### Financial & Business Performance

For the year ended March 2007 the Bank posted a net profit of Rs. 89 crore compared to Rs. 9 crore for 2005-06. The pre-tax profit improved to Rs. 128 crore compared to Rs. 22 crore during the previous year.

The aggregate business of the Bank has crossed a new milestone of Rs. 25,000 crore mark to reach Rs. 27,395 crore as at March 31, 2007 compared to Rs. 23,566 crore as at March 31, 2006. The **Total Deposits** of the Bank increased to Rs. 15,419 crore registering a growth of 16%. The **Net Advances** increased to Rs. 11,976 crore by March 2007 compared to Rs. 10,232 crore at the end of the previous year. The Bank has complied with the regulatory requirements namely the target of 40% of adjusted net bank credit for priority sector lending achieving a level of 41% (previous year 36%). Export advances increased to Rs. 1,151 crore from 1,105 crore at the end of the previous year. The export credit as a percentage of adjusted net bank credit stood at 10.20%. As of March 31, 2007 the outstanding credit to SC/ST borrowers stood at Rs.48.75 crore (previous year Rs.17.70 crore) and the percentage of recovery to demand as on March 31, 2007 is 46% (previous year 46.24%) of the amounts fallen due.

The **Net Interest Income** for the year 2006-07 increased to Rs. 542 crore, registering an increase of 13%.

**Operational Expenditure** has decreased to Rs. 507 crore compared to Rs. 519 crore for the previous year.

The net NPA has been brought down to 0.95% as of March 2007 from 1.76% as of March 2006. Capital adequacy ratio has been maintained at 10.56% as on March 2007, a marginal decline from the 10.67% as of March 2006.

The detailed discussion on financials and business performance is presented in the Management Discussion and Analysis Report, forming part of this Annual Report.

### Appropriation of Profits and Dividend

In compliance with the requirement under the Banking Regulation Act, 1949 and the guidelines issued thereunder by the Reserve Bank of India, the Directors propose to transfer Rs. 22.23 crore (previous year Rs. 2.26 crore) to Statutory Reserve, Rs. 39.57 crore (previous year Rs. 26 crore) to Capital Reserve and Rs. 3.05 crore (previous year Nil) to Investment Reserve, for the year ended March 2007.

With the improved financial performance it is gratifying that the Bank is back on dividend track. Taking into account the Regulatory restrictions, the Board of Directors recommend the payment of dividend at 6.5% on the face value of fully paid-up shares. The outflow on account of this dividend, including the dividend tax would absorb Rs. 6.91 crore.

The dividend recommended, on approval would be paid to all those shareholders whose names appear as Beneficial Owners as at the end of May 29, 2007 as per the list to be furnished by Depositories (viz., NSDL & CDSL) in respect of the shares held in electronic form, and those shareholders whose names appear in the Register of Members of the Bank as members after giving effect to all valid transfers of shares in physical form which will be lodged with the Bank on or before May 29, 2007.

### Consolidated Financial Statements

As required by AS 21 and AS 23 issued by the Institute of Chartered Accountants of India, the Bank's consolidated financial statements are included in this Annual Report incorporating the accounts of the subsidiary company viz. ING Vysya Financial Services Limited (IVFSL) and Associate viz. ING Investment Management (India) Private Limited, in line with the basis of consolidation as explained in the Notes to the said consolidated statements.

### Employee Stock Option Scheme

The shareholders of the Bank, at the Annual General Meeting (AGM) held on September 29, 2001 approved earmarking of 5,00,000 shares of the Bank to be granted under the Employee Stock Option Scheme (ESOS), which options are to be granted in three tranches. As a result of issue of Rights shares by the Bank during 2005 in the ratio of three shares for every one share held, a proportionate adjustment was made to the number of options already granted (and not exercised) and to the exercise price. Further, the shareholders have approved a revised ESOS at the AGM in 2005. The requisite particulars to be disclosed under the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, in respect of the options granted etc, under the above two schemes are furnished in Annexure -1 to this report.



### Postal Ballot

The Shareholders of the Bank during May 2007, passed a special resolution by postal ballot regarding the introduction of a new Stock Option Scheme. The said special resolution was passed with 2,22,13,445 valid votes cast in favour of the resolution and 48,43,567 valid votes cast against the resolution.

As per the said approval, the Board of Directors is authorized to create, issue, offer and /or allot such number of stock options, to or for the benefit of such person or persons as are in the permanent employment of the Bank, including the wholetime directors, as may be decided by the Board of Directors, at any time, which give right to purchase or subscribe not exceeding 78,00,000 equity shares of the Bank or 9% of the issued capital of the Bank as on March 21, 2007 whichever is less, under an Employee Stock Option Scheme titled ESOS 2007, in one or more tranches, at such price at such point of time and on such terms and conditions as the Board of Directors may decide; each stock option shall be convertible into one equity share (of a face value of Rs.10/-per share) of the Bank .

### Statutory Disclosures

The particulars of employees required under Section 217(2A) of the Companies Act, 1956 and the rules made there under, are given in the annexure appended hereto (Annexure- 2) and forming part of this report. In terms of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the shareholders excluding the aforesaid annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the Registered Office of the Bank. The Bank had 5341 employees as on March 31, 2007, out of which, 30 employees employed throughout the year were in receipt of remuneration of not less than Rs. 24.00 lakhs per annum and 17 employees employed for part of the year were in receipt of remuneration of not less than Rs. 2 lakhs per month.

The provisions of Section 217(1)(e) of the Act relating to conservation of energy and technology absorption do not apply to the Bank. The Bank has, however, used information technology extensively in its operations.

### Subsidiaries

ING Vysya Financial Services Limited (IVFSL) a 100% subsidiary of the Bank, engaged in marketing of the Bank's products and products of insurance and mutual funds earned a net profit of Rs. 5.88 crore for 2006-07, as against Rs.4.95 crore during the previous year.

As required under Section 212 of the Companies Act, 1956 the Balance Sheet, Directors' Report and other documents pertaining to IVFSL, along with a statement of interest of the Bank in the subsidiary, are attached to the financial statements of the Bank.

### Associates and Joint Ventures

In April 2007 the Bank sold its entire shareholding of 99,30,000 shares in ING Investment Management (India) Private Limited at the rate of Rs. 12/-per share, netting a gain of Rs 1.99 crore.

### Delisting

Further to the approval of the Shareholders at the 75<sup>th</sup> Annual General Meeting on September 26, 2006, the shares of the Bank have been delisted from Bangalore Stock Exchange in view of the 'Nil' trading volumes in the Bank's shares over a continuous period of seven years.

### Directors

Mr. Luc Vandewalle, Mr. Joseph Kestemont and Dr. Prakash Apte resigned from their positions as Directors on the Board during the year. The Board of Directors take this opportunity to place on record its appreciation and gratitude for the valuable contributions rendered by them during their tenure as Directors on the Board.

Mr. Richard Cox was appointed by the Board of Directors as Additional Director effective July 13, 2006, till date of AGM viz. September 26, 2006. He was appointed as Director liable to retire by rotation by the Bank at the AGM on September 26, 2006.

Mr. Aditya Krishna was appointed by the Board as Director in the casual vacancy caused by the resignation of Dr. Prakash Apte. Mr. Aditya Krishna will hold office upto the date upto which Dr. Apte would have held office but for such resignation.

### Appointment of Chairman

Mr. K. R. Ramamoorthy has been appointed as Non-Executive Part-time Chairman of the Bank on honorary basis for a period of three years commencing from May 5, 2006 in terms of the approval of the RBI under Section 10B(1A)(i) of the Banking Regulation Act, 1949.

**Retirement of Directors by rotation**

Mr. K.R.V. Subrahmanian, Mr. Arun K. Thiagarajan, and Mr. Aditya Krishna will retire by rotation in terms of Section 256 of the Companies Act, 1956 at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. A brief resume of each of these Directors is furnished in the Annexure to the Notice convening the Annual General Meeting.

**Registrar & Share Transfer Agents**

Karvy Computershare Pvt. Limited, Hyderabad continues to be the Registrar and Share Transfer Agents for the shares of the Bank.

**Auditors**

The Statutory Auditors viz. M/s. BSR & Co., Chartered Accountants who were first appointed as auditors of the Bank at the 72<sup>nd</sup> Annual General Meeting (AGM) held on September 15, 2003 and re-appointed at the successive AGMs thereafter would be retiring at the conclusion of the forthcoming Annual General Meeting. They have been Statutory Auditors for four consecutive years, which is the maximum term for statutory auditors of banking companies as per the directives issued by the Reserve Bank of India (RBI).

Subject to the approval of RBI, it is proposed to appoint M/s. SR Batliboi & Co., Chartered Accountants as Statutory Auditors of the Bank for the financial year 2007-08. Shareholders are requested to approve the appointment of said firm as auditors and authorize the Board of Directors to determine the remuneration payable to the said auditors and also to appoint Branch auditors and finalise their remuneration.

**Other Reports**

As required under Clause 49 of the Listing Agreement entered into with the Stock Exchanges, a detailed report on Corporate Governance and Management Discussion & Analysis are included in the Annual Report to form part thereof.

**Directors' Responsibility Statement**

As required by Section 217(2AA) of the Companies Act, 1956, the Directors confirm:

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that they had selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit of the Bank for the year under review;
- (iii) that they had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;
- (iv) that they had prepared the accounts for the financial year ended March 31, 2007 on a going concern basis.

**Acknowledgements**

The Board is grateful to the Reserve Bank of India for its continued guidance and support. The Board places on record its gratitude to the Securities and Exchange Board of India and other government and regulatory authorities for their guidance and support.

The Board wishes to place on record its sincere thanks to IFC, financial institutions & FIIs, stock exchanges, Indian Banks' Association, Indian Institute of Bankers, National Securities Depositories Limited, Central Depository Services (India) Limited, correspondent banks and rating agencies for their continued support.

The Board also placed on record its special thanks to ING Group in providing the necessary guidance and support, helping your Bank in its endeavours to upgrade its risk management and other processes to international standards.

The Board would like to take this opportunity to express sincere thanks to its valued clients and customers for their continued patronage. The Directors express their deep sense of appreciation of all the employees, whose outstanding professionalism, commitment and initiative has made the organisation's growth and success possible and continues to drive its progress. Finally, the Directors wish to express their gratitude to the Members for their trust and support.

For and on behalf of the Board



**K R Ramamoorthy**  
Chairman

Date: May 18, 2007

## ANNEXURE - 1 TO DIRECTORS' REPORT

Statutory Disclosures regarding ESOS under Clause 12 of the Securities and Exchange Board of India  
(Employees Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

	ESOS Scheme 2002 (as modified in 2005)		ESOS Scheme 2005
	Tranche 1	Tranche 2	Tranche 1
<b>Options Granted</b> - Pre Right Issue 2005	166,800	160,490	
- Post Right Issue 2005	327,980	429,524	462,712 (including sign on options)
<b>Pricing Formula</b>	Rs. 203 per share/for options granted pre-adjustment on rights Rs.84.50/share/for options granted post-adjustment on rights. Exercise price is equivalent to 75% of the average price of the shares during the past six months in the Stock Exchange where the Shares are traded in highest number.	Rs.255 per share/for options granted pre-adjustment on rights Rs.97.50/share/for options granted post-adjustment on rights. Exercise price is equivalent to 75% of the average price of the shares during the past six months in the Stock Exchange where the Shares are traded in highest number.	Rs.124 per share/for options granted Exercise price is equivalent to 75% of the average price of the shares during the past six months in the Stock Exchange where the Shares are traded in highest number.
<b>Options Vested</b>			
Pre Right Issue	60,450	28,868	
Post Right Issue	204,920	192,326	97,928
<b>Options Exercised</b>			
Pre Right Issue	59,740	27,568	
Post Right Issue	134,080	113,691	25,247
Total number of Shares arising as a result of exercise of Option			
Pre Right Issue	59,740	27,568	
Post Right Issue	134,080	113,691	25,247
<b>Options Lapsed</b>			
Pre Right Issue	25,065	25,541	
Post Right Issue	32,400	88,098	91,667
Variation of terms of options	NIL	NIL	NIL
Money realised by exercise of options	23,456,980	18,114,713	3,130,628
Total number of options in force	161,500	227,735	345,798
Employee wise details of grant to Senior Managerial Personnel			
Mr. B. Ashok Rao		11,900	5,000
Mr. Narayan K B V	8,470	11,900	3,000
Mr. Ravindra Kumar	-	-	10,000
Mr. Jayant Mehrotra	-	-	5,000
Mr. V S Radha Krishnan	-	-	9,500
Mr. Samir Bimal	-	-	7,000
Mr. Prasad J M	-	-	5,500
Mr. K S R Anjaneyulu	8,400	-	7,500
Mr. Sankarshan Rao Y	2,880	5,120	5,500
Mr. Shankar P	5,040	-	4,000
Any other employee who received a grant in any one year of the options amounting to 5% or more of the options granted during that year.	NIL	NIL	NIL
Identified employee who were granted options, during any one year, equal to or exceeding 1% of the issued capital (exclude outstanding warrants and conversions) of the company at the time of grant.	NIL	NIL	NIL



The Bank follows the intrinsic method for valuing the stock options. The difference between Employee Compensation Cost computed based on such intrinsic value and Employee Compensation Cost that shall have been recognised if fair value of options had been used is explained below :

**a) Employee Compensation Cost**

Sl. No	Particulars	Amount in Rs.
1	Intrinsic Value	6,768,460.31
2	Black - Scholes*	10,295,200.71
	Excess to be Charged	3,526,740.40

**b) Impact on Profit**

Sl. No	Particulars	Amount in Rs.
1	Declared Profit	889,099,364.96
2	Less: Adjustment for additional charge due to Black Scholes	3,526,740.40
	Adjusted Profit	885,572,624.56

**c) Impact on EPS**

Sl. No	Particulars	Basic (Rs)	Diluted (Rs)
1	Declared in the financial Statements	9.80	9.73
2	Revised EPS	9.76	9.69

**d) Weighted Average details for all the three Tranches**

1	Exercise Price	Rs.105.15
2	Fair Value	Rs. 51.98

**e) Significant assumptions: Weighted average information to estimate the fair value of options**

Sl. No	Particulars	Tranche I	Tranche II	Tranche III
1	Risk Free Interest Rate	5.89%	4.78%	6.68%
2	Expected Life (excluding grant period of one year)	5 Yrs	4 Yrs	4Yrs
3	Expected Volatility	2.80%	2.40%	2.0%
4	Expected Dividends	40%	40%	-
5	The price of the underlying share in market at the time of option grant (as per NSE)	Rs 255.30	Rs 451.30	Rs 164.30
6	Share Prices adjusted after Rights issue	Rs 97.57	Rs 146.57	Rs 164.30

\* The Black-Scholes Model is used to calculate a theoretical call price (ignoring dividends paid during the life of the option) using the five key determinants of an option's price: stock price, strike price, volatility, time to expiration, and short-term (risk free) interest rate.

**The Black - Scholes Model for Option Valuation (Tranche - I)**

Call option value calculated based on:

The current market value of the share is Rs.97.57 (as on 1<sup>st</sup> Oct, 2002) (After Rights issue adjust) (Rs.255.30 at the time of option grant i.e, without Rights issue adjust)

The exercise price is Rs.84.50 (After Rights issue adjust) (Rs.203 without Rights issue adjust)

The risk free rate of interest is the yield of 5-year gilt rate (5.89%)

The Standard deviation of the continuously compounded annual return on the share is 0.028. (i.e., Volatility is 2.8%)

The call option value for:

1 <sup>st</sup> Year	Rs. 17.91
2 <sup>nd</sup> Year	Rs. 22.47
3 <sup>rd</sup> Year	Rs. 26.76
4 <sup>th</sup> Year	Rs. 30.81
5 <sup>th</sup> Year	Rs. 34.63

#### The Black-Scholes Model for Option Valuation (Tranche - II)

Call option value calculated based on:

The current market value of the share is Rs.146.57 (as on 1<sup>st</sup> Oct, 2003)(After Rights issue adjust)

(Rs.451.30 at the time of option grant i.e, without Rights issue adjust)

The exercise price is Rs.97.50 (After Rights issue adjust) (Rs.255 without Rights issue adjust)

The risk free rate of interest is the yield of 5-year gilt rate (4.78%)

The Standard deviation of the continuously compounded annual return on the share is 0.024. (i.e., Volatility is 2.4%)

The call option value for:

1 <sup>st</sup> Year	Rs.53.63
2 <sup>nd</sup> Year	Rs.57.96
3 <sup>rd</sup> Year	Rs.62.10
4 <sup>th</sup> Year	Rs.66.04
5 <sup>th</sup> Year	Rs.69.80

#### The Black-Scholes Model for Option Valuation (Tranche - III)

Call option value calculated based on:

The current market value of the share is Rs.164.30 (as on 1<sup>st</sup> Jan, 2006)

The exercise price is Rs.124

The risk free rate of interest is the yield of 4-year gilt rate (6.68%)

The Standard deviation of the continuously compounded annual return on the share is 0.020. (ie. Volatility is 2.0%)

The call option value for:

1 <sup>st</sup> Year	Rs.48.31
2 <sup>nd</sup> Year	Rs.55.81
3 <sup>rd</sup> Year	Rs.62.82
4 <sup>th</sup> Year	Rs.69.38

As required under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, a certificate issued by Auditors of the Bank indicating that the Scheme has been implemented in accordance with these guidelines and in accordance with the resolution of the Bank in General Meeting, will be placed at the Annual General Meeting of the shareholders.

#### Note :

1. The Shareholders have approved ESOS 2007 Scheme by passing the Special Resolution through the Postal Ballot for creation, issue, offer and / or allotment of 78, 00,000 equity shares of the bank or 9% of the issued capital (whichever is less) as on 21 March 2007.
2. The ESOS 2007 Scheme will be formulated and implemented by the Bank in due course of time.
3. The financial information furnished above is as on 31<sup>st</sup> March, 2007 to match with the audited accounts.