

2007-08 77th Annual Report

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ING  Vysya
BANK



77th ANNUAL GENERAL MEETING

Venue	: The Auditorium, "ING Vysya House", No.22, M G Road, Bangalore - 560 001
Day / Date	: Monday, 30-Jun-2008
Time	: 10.00 a.m.



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BOARD OF DIRECTORS

K R Ramamoorthy
Chairman

Vaughn Nigel Richter
Managing Director & CEO

Aditya Krishna

Arun Thiagarajan

Lars Kramer (till 1-May-2008)

Peter Alexander Smyth (till 25-Oct-2007 A.N)

Philippe Damas

Ryan Andrew Padgett

Richard Cox

Subrahmanian K R V (till 6-Nov-2007 A.N)

Wilfred Nagel

Ramakrishnan Subramanian (from 1-May-2008)

Santosh Ramesh Desai (from 29-Apr-2008)

CORPORATE SECRETARY

M V S Appa Rao

STATUTORY AUDITORS

M/s S R Batliboi & Co.,
Chartered Accountants,
Kolkata.

ING VYSYA BANK LIMITED

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

Registrars & Share Transfer (R&T) Agents

Karvy Computershare Private Limited

Unit: ING Vysya Bank Limited,
17-24, Vittal Rao Nagar,
Madhapur,
Hyderabad - 500 081.
Ph: 040-23420815
Fax: 040-23420814



SENIOR MANAGEMENT TEAM

Vaughn Nigel Richtor
Managing Director & CEO

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

Don Koch
Chief Operating Officer

Jan Van Wellen
Chief Risk Officer (from 1-Mar-2008)

Ned Swarup
Chief Risk Officer (upto 29-Feb-08)

Jayant Mehrotra
Chief Financial Officer

Janak Desai
Country Head – Wholesale Banking

Samir Bimal
Country Head – Private Banking

Uday Sareen
Country Head – Retail Banking

Prasad J M
Chief – Human Resources

Bishwajit Mazumder
Chief – Corporate Audit Group

M V S Appa Rao
Corporate Secretary

DIRECTORS' REPORT

The Board of Directors have pleasure in presenting the Seventy Seventh Annual Report of the Bank together with the Audited Statements of accounts for the year ended 31-Mar-2008, Auditors' Report thereon and other documents and statements as are required.

Financial and Business Performance

For the year ended March 2008 the Bank posted a net profit of Rs. 157 Crore compared to Rs. 89 Crore for 2006-07. The pre-tax profit improved to Rs. 251 Crore compared to Rs. 128 Crore during the previous year. The **Net Interest Income** for the year 2007-08 increased to Rs. 498 Crore, registering an increase of 12%.

The aggregate business of the Bank reached Rs. 35,148 Crore as at 31-Mar-2008 compared to Rs. 27,395 Crore as at 31-Mar-2007. The **Total Deposits** of the Bank increased to Rs. 20,498 Crore registering a growth of 33%. The **Net Advances** increased to Rs. 14,650 Crore by March 2008 compared to Rs. 11,976 Crore at the end of the previous year. The Bank has exceeded the regulatory target of 40% of adjusted net bank credit for priority sector lending, having achieved a level of 42.68% (previous year 41%). Export advances increased to Rs. 1,300.67 Crore from Rs. 1,151 Crore at the end of the previous year. The export credit as a percentage of net bank credit stood at 8.85%. As of 31-Mar-2008, the outstanding credit to Scheduled Castes / Scheduled Tribes borrowers stood at Rs. 34.62 Crore and the percentage of recovery to demand as on 31-Mar-2008 was 48.33% (previous year 46%) of the amounts fallen due.

The Net NPAs have been reduced to 0.70% as of March 2008 from 0.95% as of March 2007.

Capital Raising and Capital Adequacy Ratio

During the year 2007-08, the Bank raised equity capital of Rs. 350 Crore through a private placement of 6,209,375 equity shares to Qualified Institutional Buyers (QIBs) at Rs. 310/- per share including a premium of Rs. 300/- per share and a Preferential Allotment of 3,950,175 equity shares to ING Mauritius Holdings and 1,130,772 equity shares to ING Mauritius Investments I, wholly owned subsidiaries of ING Group at Rs. 310/- per share including a premium of Rs. 300/- per share. The paid up capital stood at Rs.102.47 Crore as at 31-Mar-2008 as compared to Rs. 90.90 Crore, as at 31-Mar-2007.

The Capital Adequacy Ratio stood at 10.20% as at 31-Mar-2008 as against the stipulated minimum of 9% prescribed by the Reserve Bank of India. Of this, Tier I Capital accounted for 6.82% as against 6.38% as at 31-Mar-2007 and Tier II capital was at 3.38% as compared to 4.18% as at 31-Mar-2007.

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. 39.23 Crore (previous year Rs. 22.23 Crore) to Statutory Reserve, Rs. 3.15 Crore (previous year Rs. 39.57 Crore) to Capital Reserve and Rs. 4.77 Crore (previous year Rs. 3.05 Crore) to Investment Reserve, for the year ended March 2008.

Taking into account the regulatory restrictions, the Board of Directors recommend the payment of dividend at 15% on the face value of fully paid-up shares increasing from 6.5% of the previous year. The outflow on account of the proposed dividend, including the dividend tax, would be Rs. 17.98 Crore.

The dividend recommended, on approval would be paid to all those shareholders whose names appear as Beneficial Owners as at the end of 2-Jun-2008 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 2-Jun-2008.

Consolidated Financial Statements

As required under AS 21 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 its wholly owned subsidiary company viz., ING Vysya Financial Services Limited (IVFSL) in line with the basis of consolidation as explained in the Notes to the said consolidated statements.

DIRECTORS' REPORT**Employee Stock Option Scheme**

The Shareholders of the Bank have approved Employee Stock Option Scheme by passing a special resolution through postal ballot to create, issue, offer and /or allot 78,00,000 stock options of the Bank, under an Employee Stock Option Scheme titled ESOS 2007, in one or more tranches. The scheme has been formulated and implemented and grants have been made during the financial year 2007-08.

Employees who fulfilled the qualifying period of service of the Bank have been granted "Loyalty Options", from the pool of un-utilized options of Employee Stock Option Scheme 2005 with the permission of the Compensation (Corporate Governance) Committee. This has increased their sense of pride and affiliation to the organization.

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 existing and new schemes are furnished in Annexure -1 to this report.

Statutory Disclosures

The particulars of employees required under Section 217(2A) of the Companies Act, 1956 and the rules made thereunder, 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 Corporate Secretary at the Registered Office of the Bank.

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 wholly owned subsidiary of the Bank with the object of carrying on business as brokers and agents for marketing and distribution of insurance products and mutual funds on a commission basis, earned a net profit of Rs. 0.23 Crore for the year 2007-08, as against Rs. 5.88 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.

Directors

Mr. Peter Smyth and Mr. K R V Subrahmanian resigned as Directors on 25-Oct-2007 (afternoon) and 6-Nov-2007 (afternoon) respectively. The Board places on record its appreciation and gratitude for the valuable contributions rendered by them during their tenure as Directors on the Board.

Retirement of Directors by rotation

Mr. Richard Cox and Mr. Ryan Padgett 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.

Registrars and Share Transfer Agents

Karvy Computershare Pvt. Limited, Hyderabad continues to be the R & T Agents for the shares of the Bank.

Auditors

The Statutory Auditors viz. M/s. S R Batliboi & Co., Chartered Accountants who were first appointed at the 76th Annual General Meeting held on 28-Jun-2007 are retiring at this AGM and being eligible for re-appointment under the guidelines of Reserve Bank of India (RBI), offer themselves for re-appointment.

Reserve Bank of India vide its letter No. DBS.ARS.No.15805/08:27:005/2007-2008 dated 20-May-2008, conveyed its approval for the re-appointment of M/s. S R Batliboi & Co., Chartered Accountants, Kolkata as Statutory Auditors of the Bank for the

DIRECTORS' REPORT

financial year 2008-09. The shareholders are requested to appoint the above auditors and authorize the Board of Directors to determine their remuneration. Shareholders are also requested to authorize the Board of Directors to appoint Branch Auditors and determine 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 is included in this Annual Report.

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 31-Mar-2008 on a going concern basis.

Acknowledgements

The Board places on record their gratitude for all the guidance and co-operation received from the Reserve Bank of India and other government and regulatory agencies. The Board expresses its appreciation for the hard work and dedicated efforts put in by the Bank's employees and look forward to their continued contribution. Finally, the Directors express their gratitude to the Members for their trust and support.

For and on behalf of the Board

Place: Bangalore
Date: 21-May-2008

K R Ramamoorthy
Chairman

ANNEXURE TO DIRECTORS' REPORT

Statutory Disclosure as of 31st March 08, 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		ESOS Scheme 2007
	Tranche 1	Tranche 2	Tranche 1	Tranche 2 (Loyalty Options)	Tranche 1
Options Granted - Pre Right Issue 2005	166,800	160,490	-	-	-
- Post Right Issue 2005	327,980	429,524	465,212 (including sign on options)	521,460	3,166,500
Pricing Formula	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.	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.	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.	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.	Exercise price is closing price in the Stock Exchange where the shares are traded in the highest number, prior to the date of meeting of the Board of Directors in which options are granted.
Options Vested - Pre Right Issue	60,450	28,868	-	-	-
Post Right Issue	290,290	272,991	168,649	-	-
Options Exercised - Pre Right Issue	59,740	27,568	-	-	-
Post Right Issue	224,480	190,481	134,724	-	-
Total number of Shares arising as a result of exercise of Option					
- Pre Right Issue	59,740	27,568	-	-	-
Post Right Issue	224,480	190,481	134,724	-	-
Options Lapsed					
- Pre Right Issue	25,065	25,541	-	-	-
Post Right Issue	64,530	127,533	121,497	-	-
Variation of terms of options	NIL	NIL	NIL	NIL	NIL
Money realised by exercise of options (in Rs)	18,968,560	18,571,898	16,686,126	-	-
Total number of options in force	38,970	111,510	208,991	521,460	3,166,500
Employee-wise details of grant to Senior Managerial Personnel (Mr.)					
B. Ashok Rao	-	11,900	5,000	-	238,500
Bishwajit Mazumder	-	-	-	-	25,000
Don Koch	-	-	-	-	-
Jayant Mehrotra	-	-	5,000	-	570,000
Janak Desai	-	-	-	-	570,000
Samir Bimal	-	-	7,000	-	522,000
Prasad J. M.	-	-	5,500	-	279,000
Uday Sareen	-	-	-	-	-
Jan Van Wellen (from 1-Mar-2008)	-	-	-	-	-
Ned Swarup (upto 29-Feb-2008)	-	-	-	-	-
Appa Rao M V S	5,040	5,440	4,500	500	-
Any other employee who received a grant in any one year of the options amounting to 5% or more of the options granted during the year.	NIL	NIL	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	NIL	NIL

ANNEXURE TO DIRECTORS' REPORT

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

S. No	Particulars	Amount in Rs
1	Intrinsic Value	17,761,869.89
2	Black - Scholes*	54,696,882.42
	Excess to be Charged	36,935,012.53

b) Impact on Profit

S. No	Particulars	Amount in Rs
1	Declared Profit	1569,303,781.11
2	Less: Adjustment for additional charge due to Black Scholes	36,935,012.53
	Adjusted Profit	1532,368,768.58

c) Impact on EPS

S. No	Particulars	Basic (Rs)	Diluted (Rs)
1	Declared in the financial Statements	16.47	16.26
2	Revised EPS	16.08	15.88

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

S. No	Particulars	ESOS 2002		ESOS 2005		ESOS 2007
		Tranche I	Tranche II	Tranche I	Loyalty option	Trench I
1	Risk Free Interest Rate	5.89%	4.78%	6.68%	7.64%	7.72%
2	Expected Life (excluding grant period of one year)	5 Yrs	5 Yrs	4Yrs	2 Yrs	3 Yrs
3	Expected Volatility	2.8%	2.4%	2.0%	2.9%	2.9%
4	Expected Dividends	40%	40%	-	15%	15%
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	Rs. 262.60	Rs.262.60
6	Share Prices adjusted after Rights issue	Rs 97.57	Rs 146.57	Rs 164.30	Rs. 262.60	Rs. 262.60

* 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 (ESOS 2002- Tranche - I)

Call option value calculated based on:

The current market value of the share is Rs.97.57 (as on 1st Oct, 2002) (Post Rights issue adjusted) (Rs.255.30 at the time of option grant i.e, without Rights issue adjustment)

The exercise price is Rs.84.50 (Post Rights issue adjusted) (Rs.203/- without Rights issue adjustment)

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 st Year	Rs.17.91
2 nd Year	Rs.22.47
3 rd Year	Rs.26.76
4 th Year	Rs.30.81
5 th Year	Rs.34.63

ANNEXURE TO DIRECTORS' REPORT**The Black-Scholes Model for Option Valuation (ESOS 2002 Tranche - II)**

Call option value calculated based on:

The current market value of the share is Rs.146.57 (as on 1st 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. (ie. Volatility is 2.4%)

The call option value for:

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

The Black-Scholes Model for Option Valuation (ESOS 2005 Tranche - I)

Call option value calculated based on:

The current market value of the share is Rs.164.30 (as on 1st 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 0.029. (ie. Volatility is 2.9%)

The call option value for:

1 st Year	Rs.48.31
2 nd Year	Rs.55.81
3 rd Year	Rs.62.82
4 th Year	Rs.69.38

The Black-Scholes Model for Option Valuation (ESOS 2005- Loyalty option)

Call option value calculated based on:

The current market value of the share is Rs.262.60 (as on 25th October 2007)

The exercise price is Rs.184.82

The risk free rate of interest is the yield of 2-year gilt rate (7.64%)

The Standard deviation of the continuously compounded annual return on the share is 0.029. (ie. Volatility is 2.89%)

The call option value for:

1 st Year	Rs.91.37
2 nd Year	Rs.103.97

The Black-Scholes Model for Option Valuation (ESOS 2007)

Call option value calculated based on:

The current market value of the share is Rs.262.60 (as on 25th October 2007)

The exercise price is Rs.262.60

The risk free rate of interest is the yield of 3-year gilt rate (7.72%)

The Standard deviation of the continuously compounded annual return on the share is 0.029. (ie. Volatility is 2.89%)

The call option value for:

1 st Year	Rs.19.51
2 nd Year	Rs.37.57
3 rd Year	Rs.54.29

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.

MANAGEMENT DISCUSSION & ANALYSIS REPORT

MACRO ECONOMIC AND BANKING INDUSTRY DEVELOPMENTS

After growing at an average of 8.75% in the previous four fiscal years and at a robust 9.6% last year, the growth in the Indian economy has moderated to 8.7% in 2007-08. The year commenced on an encouraging and upbeat note, continuing the trend seen over the past few years. However, since July 2007, the financial markets in the developed countries witnessed considerable turbulence triggered by defaults in the US sub-prime mortgage market that has not yet abated. The consequence of these developments for developing countries is not completely clear, though there are indications of heightened uncertainties and challenges. However, despite the rising rupee and the slowdown in the consumer goods segment, the acceleration in domestic investment, supported by external demand and savings rates have fuelled the growth witnessed in the economy.

The drivers of growth continue to be services and manufacturing industries, which have grown at 10.6% and 9.1%, respectively from April 2007 to February 2008. The service sector's share of total GDP is at 55%, industrial sector at 27.5% and the agricultural sector at 17.5%. The industrial sector achieved a growth of 8.7% from April 2007 to February 2008. The rate of growth in the agricultural sector has been constantly declining over the last five years and the growth in the financial year was 2.6% as compared with 3.8% in the previous year. Foreign exchange reserves rose from \$200 billion as on 6-Apr-2007 to \$312 billion as on 4-Apr-2008.

The past year also witnessed high volatility in the equity markets. The BSE Sensex (1978-79=100) reached a record high of 20,873 on 8-Jan-2008 from 13,072 as at end March 2007, after which it declined to 15,644 on 31-Mar-2008. The fall in the index is attributed to fears of an economic recession in the US, the sub-prime crisis and a reduction in liquidity.

The Indian foreign exchange market witnessed generally orderly conditions during 2007-08. During this period, the rupee appreciated against the US dollar to Rs.40.12 against Rs.43.47 as on 31-Mar-2007 and at the same time depreciated against the Euro to Rs.63.44 as on 31-Mar-2008 against Rs.57.87 as on 31-Mar-2007.

Economists project that GDP growth in the ensuing fiscal would be around 8% due to the US-led global slowdown, moderation in growth in the industrial and service sectors, aggressive monetary tightening and a sharp rise in the rupee's value against the dollar, which has slowed exports. Though a growth rate of 7.5-8% would still be enviable by western levels, it is viewed as too low for India, where analysts believe double-digit expansion is needed to help hundreds of millions escape the poverty trap. A bigger risk lies in rising commodity prices and rising inflation, which has broadly been below 5% for most part of the year, crossed the 5% mark in February 08, and was nearly 7.4% for the last week of March 08. Though the average annual inflation for 2007-08 is around 4.5%, the last quarter numbers are a cause for concern. A culmination of robust domestic demand combined with rising food and energy prices, has contributed to a build-up of inflationary pressure.

The Government and RBI have stated their intention of checking inflation as a top priority. The Central Bank and the Government are "signaling that the risk to inflation is a bigger worry than the risk to growth". It also increases the likelihood that the Central Bank may keep interest rates unchanged in the near term despite recent demands for lower interest rates to accelerate economic growth. Higher financing costs are expected to dampen the increase in private investment, the key driver of economic growth.

It is widely expected that growth will pick up to 8-8.5% levels in 2009-10 as in the medium-term favourable structural dynamics remain in place. However, this process will hinge on the timing and scope for relaxing monetary policy and a resultant pick up in consumer demand. The economy still has significant momentum. Asia's financial systems are likely to be spared a credit crunch, with well-capitalized banks and healthy balance sheets, though there may be some tightening in credit and liquidity.

Against this backdrop, the Banking sector performed reasonably well though asset growth slowed. As per the Weekly Statistical supplement published by RBI, aggregate deposits of Scheduled Commercial Banks (SCBs) increased by 22.2% (Rs.5,80,208 Crore) during 2007-08 as against 23.8% (Rs.5,02,885 Crore) in the previous year. Non-food credit extended by SCBs increased by 22.25% (Rs.4,19,426 Crore) as against 28% (Rs.4,18,282 Crore) in the previous year. Food credit of SCBs decreased by Rs.2,121 Crore as compared to an increase of Rs.5,830 Crore in the previous year. However, rising inflation levels have resulted in hardening of interest rates and a further slowdown in the asset growth as well as possible increase in NPA levels are challenges facing the industry.

On the Policy front, the Reserve Bank left the Bank rate, the Repo rate and the Reverse Repo rate unchanged during the financial year. The CRR was increased from 6% at the beginning of the year to 7.5% in three stages of 50 basis points (bps) each. Since 31-Mar-2008, CRR has been increased by a further 75 bps. The RBI also continued with its open market operations including the market stabilisation scheme and the liquidity adjustment facility, for managing the excess liquidity in the system throughout the year, apart from the CRR increases.