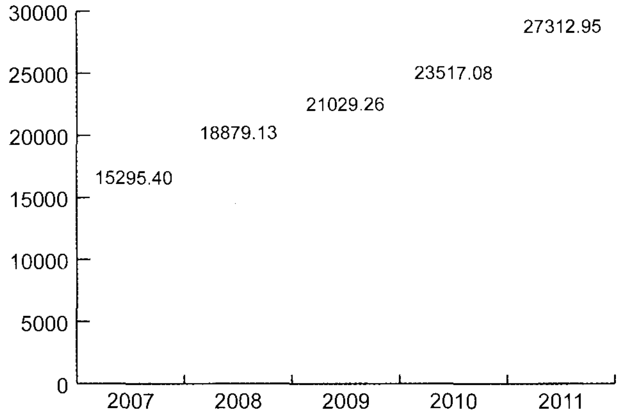

Saraswat
Bank

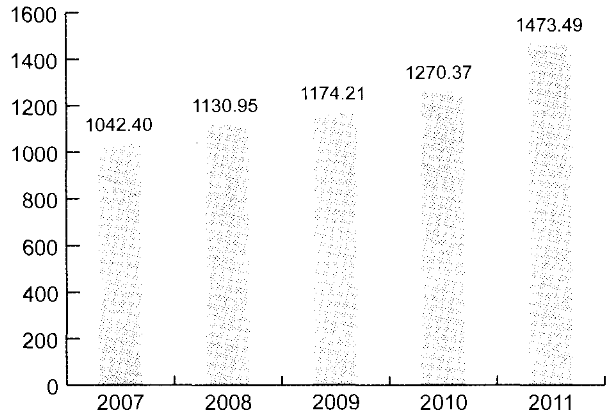
Indicative Map, not to scale. For representational purpose only.

## Total Business
(₹ in crore)

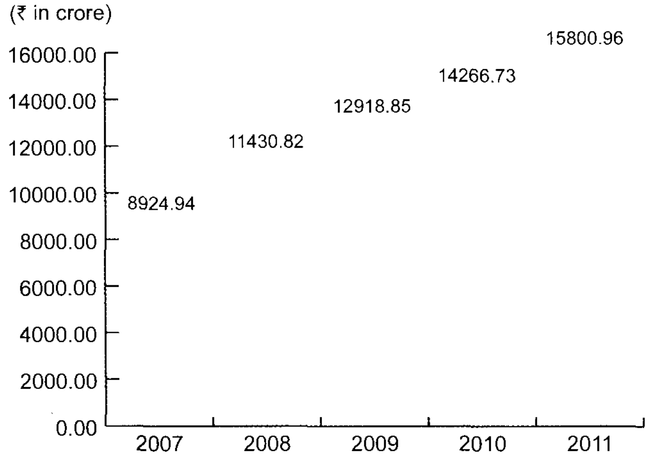



## Working Funds
(₹ in crore)

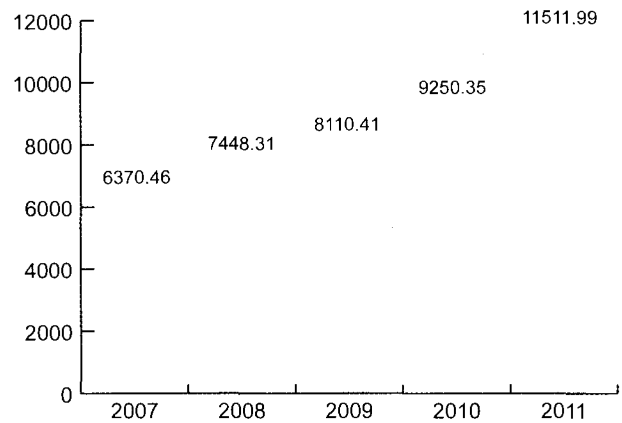

## Own Funds
(₹ in crore)




## Deposits
(₹ in crore)




## Advances
(₹ in crore)



Saraswat Bank

# THE SARASWAT CO-OPERATIVE BANK LIMITED

(A SCHEDULED BANK)

- **REGISTERED OFFICE** : 'Madhukosh', S.V. Sovani Path, Girgaum, Mumbai – 400 004.
- **CORPORATE CENTER** : Saraswat Bank Bhavan, Plot No. 953, Appasaheb Marathe Marg, Prabhadevi, Mumbai – 400 025. Website: www.saraswatbank.com
- **DATE OF ESTABLISHMENT** : September 14, 1918.
- **NO. AND DATE OF RBI LICENSE** : ACD-MH-220-P, dated 27.08.1980.
- **AREA OF OPERATION** : ALL INDIA
- **AUDIT CLASSIFICATION** : 'A' (Since 1933, i.e. the year in which we were registered as a Bank).

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## --- ANNUAL REPORT 2010-11 ---

**CONTENTS:**

# NOTICE

The Ninety-third Annual General Meeting of the Members of The Saraswat Co-operative Bank Ltd., will be held on Thursday, 14th July, 2011 at 4.00 p.m. at Yogi Sabhagruha, near Dadar Central Railway Station, Behind Swami Narayan Mandir, Dadar (East), Mumbai – 400 014 to transact the following business concerning the Bank: -

1. To consider and approve the Annual Accounts, which consist of the Report of the Board of Directors, the Report of the Statutory Auditors, the Balance Sheet and the Profit and Loss Account, for the year ended 31st March, 2011.
2. To appropriate net profit and declare dividend as recommended by the Board of Directors for the year ended 31st March, 2011.
3. To appoint Statutory Auditors for the financial year 2011-12 and to authorize the Board of Directors to fix their remuneration. The Board of Directors recommends M/s Kulkarni & Khanolkar, Chartered Accountants, 13/14, Bell Building, Sir P.M. Road, Fort, Mumbai – 400 001; for appointment as Statutory Auditors.
4. To approve amendment to the Bank's Bye-law No. 4.
5. To approve amendment to the Bank's Bye-law No. 7.
6. To place for consideration and adoption, the Annual Report and Audited Accounts of Saraswat Infotech Ltd. (Bank's wholly-owned subsidiary company, registered under Companies Act, 1956), which consist of the Report of the Board of Directors, the Report of the Statutory Auditors, the Balance Sheet and the Profit and Loss Account for the year ended 31st March, 2011.
7. To grant Leave of Absence to the members of the Bank other than to those whose names appear in the Attendance Register of this 93rd Annual General Meeting.

By Order of the Board of Directors

Sd/-

**S. K. Banerji**

Managing Director

**Mumbai : 30th April, 2011**

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**NOTE:** The printed Annual Report of the Bank consisting of the Report of the Board of Directors, the Report of the Statutory Auditors, the Balance Sheet and the Profit and Loss Account for the year ended 31st March, 2011 is enclosed to this Notice.

The printed Annual Report consisting of the Report of the Board of Directors, the Report of the Statutory Auditors, the Balance Sheet and the Profit and Loss Account of Saraswat Infotech Ltd., Bank's wholly-owned subsidiary, for the year ended 31st March, 2011 is also enclosed to this Notice.

If there is no quorum for the Meeting at the appointed time, in terms of Bye-law No. 48, the Meeting shall stand adjourned to 5.00 p.m. on the same day and the Agenda of the Meeting shall be transacted at the same venue irrespective of the Rule of Quorum.

Dividend, when declared, will be paid on or after 20th July, 2011, to those shareholders whose shares are fully paid as on 31st March, 2011 and whose names are on the record of the Bank as on 18th June, 2011.

If any member desires to have information in connection with the Accounts, he/she is requested to address a letter to the Managing Director of the Bank, to reach his office at The Saraswat Co-operative Bank Ltd., Saraswat Bank Bhavan, Corporate Center, 6th floor, Plot No. 953, Appasaheb Marathe Marg, Prabhadevi, Mumbai – 400 025, not later than 11th July, 2011, so that the required information may be made available at the Annual General Meeting.

TO SERVE YOU BETTER:

1. Shareholders are hereby requested to kindly verify their name and address on the Annual Report sent to them. Change in address, if any, may kindly be intimated by post or by e-mail to Share Department of the Bank for updating Bank's records. E-mail address of the Share Department is incharge_sharedepartment@saraswatbank.com
2. Shareholders are requested to avail of the nomination facility by submitting prescribed Nomination Form, as required under Section 36 of the Multi-State Co-operative Societies Act, 2002 and Bye-law No. 19.
3. Shareholders having Current/Savings Bank/Cash Credit accounts with the Bank and desirous of crediting their dividends to their accounts are once again requested to record their standing instructions with the Share Department.
4. Kindly despatch Form – A on page no. 135 requesting Annual Report in Marathi, if you so desire / or requesting to send the Annual Report in English electronically - to our Share Department.

**Unclaimed Dividend**

**Notice is hereby given that dividend for the year ended March 31, 2008 (87th Dividend) if not drawn on or before 31st October, 2011, will be forfeited by the Bank and credited to the Reserve Fund in terms of Bye-law No. 68A.**

# BOARD OF DIRECTORS

(As on 31st March, 2011)

**Shri E. K. Thakur,** *B.A. (Hons.), C.A.I.I.B.*
**Chairman**

**Shri K. V. Rangnekar,** *M.A.*
**Vice-Chairman**

## DIRECTORS

**Shri M. K. Mantri,** *M.A.*
**Late Shri R. K. Patkar,** *B.A. (Hons.), B.Com.*
(upto 22nd July, 2010)
**Late Dr. Subhash V. Bhende,** *M.A., Ph.D.*
(upto 20th December, 2010)
**Shri A. V. Dubhashi,** *B.Com., A.C.A.*
**Shri S. V. Deshpande,** *B.Com., LL.B.*
**Shri H. M. Rathi,** *B.Com.*
**Shri S. D. Panse,** *B.Com., F.C.A.*
**Shri S. S. Sanzgiri,** *B.A.*
**Shri A. A. Pandit,** *B.Com., F.C.A, D.B.F.*
**Shri S. S. Shirodkar,** *Dip. (Indl. Electr.), PGDM*
**Shri S. V. Saudagar,** *B.Com., F.C.A., D.I.S.A.*
**Dr. (Mrs.) Anuradha P. Samant,** *M.B.B.S.*
**Shri M. V. Desai,** *B.Com.*

**Shri S. K. Banerji,** *B.Sc. (Hons.), D.B.M., LL.M., FIIBF.*
**Managing Director**

## ADVISOR TO THE BOARD

**Shri N. R. Warerkar,** *B.Com., C.A.I.I.B.*

## ADVISOR FOR PROJECTS

**Shri S. N. Sawaikar,** *M.Com., DMA, C.A.I.I.B.*
Principal Advisor (BPR)

## STATUTORY AUDITORS

**M/s Kulkarni & Khanolkar,** *Chartered Accountants*

## LEGAL ADVISORS

Dr. B. R. Naik, *LL.M., Ph.D.*
Shri A. V. Sabnis, *LL.B.*
Shri K. M. Naik, *B.A., LL.B.*
Shri S. N. Inamdar, *B.Com., LL.B.*
M/s Little and Company
Govind Desai Associates
Shri Shekhar Naphade, *B.A., LL.B.*

## BANKERS

State Bank of India,
Bank of India,
HDFC Bank Ltd.,
Wells Fargo Bank N.A.,
Standard Chartered Bank Ltd.,
ICICI Bank Ltd.

## —— WHOLLY-OWNED SUBSIDIARY ——

**SARASWAT INFOTECH LIMITED**
**Shri E. K. Thakur,** *B.A. (Hons.), C.A.I.I.B.*
**Chairman**

**Shri S. K. Sakhalkar,** *M.Com., PGD (I.R.), PGD (Comp. Sc.)*
**Managing Director & Chief Executive Officer**

**Shri D. M. Chandgadkar,** *M.Com., LL.B., C.A.I.I.B., A.C.S.*
**Chief Domain Officer**

# PERFORMANCE HIGHLIGHTS

Table A (₹ in Crore)

| Particulars | FOR THE YEAR ENDED | | |
|---|---|---|---|
| | 31-Mar-10 | 31-Mar-11 | % Change |
| Total Income | 1,458.20 | 1,690.86 | 15.96% |
| Total Expenditure | 1,242.36 | 1,332.67 | 7.27% |
| Gross Profit | 215.84 | 358.19 | 65.95% |
| Less: Provisions | 36.68 | 63.39 | 72.82% |
| Net Profit Before Tax and Exceptional Items | 179.16 | 294.80 | 64.55% |
| Less: Income Tax | 40.00 | 81.23 | 103.08% |
| Net Profit after Tax and before Exceptional Items | 139.16 | 213.57 | 53.47% |
| Less: Exceptional Items | 19.49 | 1.30 | -93.33% |
| Net Profit | 119.67 | 212.27 | 77.38% |
| | AT THE YEAR END | | |
| **Own Funds** | **1,270.37** | **1,473.49** | **15.99%** |
| Share Capital | 86.23 | 102.83 | 19.25% |
| Reserves and Surplus | 1,184.14 | 1,370.66 | 15.75% |
| **Deposits** | **14,266.73** | **15,800.96** | **10.75%** |
| Current | 1,244.30 | 1,050.94 | -15.54% |
| Savings | 3,003.37 | 3,513.15 | 16.97% |
| Term | 10,019.06 | 11,236.87 | 12.15% |
| **Advances** | **9,250.35** | **11,511.99** | **24.45%** |
| Secured | 9,151.61 | 11,433.19 | 24.93% |
| Unsecured | 98.74 | 78.80 | -20.19% |
| **Priority Sector** | **5,300.48** | **5,765.90** | **8.78%** |
| **% to Advances** | **57.30%** | **50.09%** | - |
| Small Scale Industries | 2,946.54 | 2,443.75 | -17.06% |
| Small Businessmen and Traders | 689.47 | 526.94 | -23.57% |
| Other Priority Sectors | 1,664.47 | 2,795.21 | 67.93% |
| **Working Capital** | **17,071.06** | **19,186.27** | 12.39% |
| **Investments** | **5,321.39** | **5,253.77** | -1.27% |
| **Borrowings and Refinance** | **562.00** | **845.62** | 50.47% |
| **Net NPAs (%)** | **0.00** | **0.00** | **0.00** |
| **Capital Adequacy (%)** | **14.63** | **12.74** | |
| **Number of Members** | | | |
| Regular * | 1,34,417 | 1,62,560 | |
| Nominal | 4,94,292 | 5,26,331 | |
| **Number of Branch Licences/Branches** | **200** | **216** | |
| **Number of Employees** | **2,911** | **3,338** | |
| **Productivity per Employee** | **8.08** | **8.18** | |
| **Profit per Employee (₹ in lac)** | **4.11** | **6.36** | |
| **Return on Average Assets (%)** | **0.74** | **1.16** | |
| **Net Interest Margin (%)** | **2.61** | **3.52** | |

* Shareholders holding fifty shares and above

# REPORT OF THE BOARD OF DIRECTORS

**Dear Members,**

Your Directors have great pleasure to present the Ninety-third Annual Report on the business and the operations of your Bank together with the Audited Accounts for the year ended 31st March, 2011.

Annual Reports of your Bank are exhaustive and comprehensive because besides the shareholders, they are read by all stake-holders, including our employees. Your Board of Directors publishes such Annual Reports because it believes that reducing information asymmetry between insiders and outsiders is vital to good corporate governance.

We would like to brief you first on the global scenario that prevailed during the period under Report.

## 1. THE GLOBAL ECONOMY AND INDIA:

The world economy entered FY 2010-11 on a stronger note as compared to the preceding year, emerging from the shadows of the financial crisis. Amongst the advanced economies, the US economy registered a build-up in momentum on improved export orders, business activity and consumer spending. However, US economic growth faced various risks viz. a laggard housing market, huge budget deficit, weak labour market and tightening Policy rates in the emerging economies. To sustain growth, the US Federal Reserve (FED) came out with another round of quantitative easing (QE2) and decided to buy Government securities aggregating to USD 600 billion. Overall, the quantitative easing was expected to expand the money supply and provide the impetus for credit creation and spending. The fourth quarter (October-December 2010) figures indicated a decent growth with the expansion of the US economy at 3.1 per cent, along with a welcome elevated inflation level but a sustained higher unemployment level at 8.8 per cent. For the whole of FY 2010 (January-December), the US economy expanded 2.9 per cent after shrinking 2.6 per cent in FY 2009 (January-December). In the new financial year 2011, the US debt situation received a reality check as Standard & Poors' (S & P) downgraded the credit outlook for the US from stable to negative, citing a failure to slash the huge budget deficit by US policy-makers. S & P also indicated a one-in-three chance that it may lower the US rating in the next two years.

A downgrade in the credit rating will cause a spike in mortgage rates and tighten credit conditions across the US economy. This might reduce the growth figures in coming quarters, as reflected in their first quarter (January-March 2011) growth of only 1.8 per cent.

As regards the Euro Zone, the pace of recovery during the year seemed fragile as wide divergences in economic growth between the core and the peripheral members became more ingrained. High level of unemployment, combined with subdued private consumption raised concerns about the impact of fiscal consolidation on growth, thereby heightening the risk of a possible derailment of the recovery in Europe. Germany remained the main driver of growth in the region. The debt and macroeconomic problems in Portugal, Ireland, Greece and Spain (PIGS) persisted. In case of Portugal, its sovereign rating was downgraded by one notch by Moody's from A3 to Baa1, i.e. junk status.

Economic recovery in the U.K. accelerated considerably during the initial part of this year, driven by private sector spending. The fourth quarter however saw some hiccups, following a sharp slump in construction and investment activity. The downsides remain in the form of weak housing markets and rising inflation.

The economic growth in Japan remained robust during FY 2010-11 but is expected to stagnate in FY 2011-12. This will be primarily due to the low base effect of 2010 wearing off, as well as concerns over the impact of the recent earthquake, tsunami and nuclear power-plant crises. In its efforts to calm the financial markets that have been hit hard by the recent disasters, the Bank of Japan recently pumped $147.2 billion funds into the money market.

Emerging markets continued to outperform the advanced economies, with Asia in the lead. China and India have led Asia in its growth revival. Loose monetary policy in developed economies, appreciating Emerging Markets (EM) currencies, robust growth and high interest rate differentials vis-à-vis developed economies attracted investors to emerging markets.

**The Indian Economy:**

During the year under review, the Indian economy continued to exhibit resilience, supported by robust domestic demand and improved external demand. GDP growth, at 8.5 per cent for FY 2010-11, reverted to its earlier high growth trajectory aided by a rebound in agricultural growth, with the services sector maintaining its momentum.

Satisfactory kharif production and higher rabi sowing contributed to the agricultural growth, which stood at 5.4 per cent for FY 2010-11. The Services sector exhibited sustained momentum and stood at 9.4 per cent for FY 2010-11. Industrial growth recorded an increase of 8.2 per cent during FY 2010-11, driven by the performance of the manufacturing and the mining sectors. A higher base effect had an adverse impact on the industrial growth rate in the second half and it resulted in moderating the contribution of the industrial sector to the GDP.

Terming India's economic recovery as 'robust', the World Bank in its India economic update, has projected the Indian economy to grow by about 8.5-9 per cent in the ensuing financial year.

**Price situation:**

Headline inflation exhibited strong persistence in FY 2010-11. Inflation emerged as a major economic concern during the year, remaining in double digits for the first four months of the year. Food inflation, in particular, has remained in double digits for more than a year, thereby prompting the Reserve Bank of India (RBI) to shift its accommodative policy stance to a tightening one, through repetitive rate hikes. The RBI increased the key Repo rate seven times during the year, largely to tame inflation, which continued to remain above the target level throughout the year.

Some easing in inflation numbers was witnessed by November 2010 due to sufficient rainfall and good kharif crops. However, the easing was short-lived as inflation numbers once again spiralled owing to supply side bottle-necks and surge in food inflation. The higher than expected WPI numbers have prompted RBI to revise the March 2011 end-inflation forecast upward from 5.5 per cent estimated earlier to 8 per cent. The revised provisional figure for March 2011 was at 9.1 per cent, which is well above the RBI's revised rate.

Risks to inflation in FY 2011-12 have amplified from an uncertain outlook on international commodity prices (with the Brent Crude category at USD 108.6 per barrel in March 2011), incomplete pass-through to domestic prices and possibility of prices of food, fuel, minerals, metals and manufactured items staying firm.

Overall, the economy is currently facing an acute growth Vs inflation dilemma and in view of the same, there seems a distinct possibility that the rate hike cycle by RBI will be extended further.

**Fiscal situation:**

The Government's fiscal deficit stood at 5.1 per cent in FY 2010-11 against the budgeted estimate of 5.5 per cent. The windfall benefit of one-off proceeds from the telecom spectrum auction and growing tax revenues remained the prime reasons for the arrest of the estimated deficit figures. The Budget intends to carry forward the process of fiscal consolidation in FY 2011-12 through lowering of expenditure by pegging it at 4.6 per cent of GDP. However, controlling expenditure could be a challenge, given the subsidy burden arising out of high international oil prices, the effect of which has not yet been completely passed on.

**Monetary and Liquidity Conditions:**

Broad Money supply (M3) growth at 15.9 per cent y-o-y during FY 2010-11 was lower than RBI's estimate of 17 per cent.

RBI had estimated 18 per cent rise in deposits. During the first three quarters of FY 2010-11, term deposits appeared relatively unattractive. However, owing to tight liquidity conditions, Banks raised deposit rates sharply during the last quarter of the year. Resultantly, deposit mobilization gathered momentum leading to money supply growth. This reduced the Banks' dependence on LAF borrowing which at one point of time had crossed ₹ one hundred thousand crore.

The non-food credit growth registered 21.2 per cent rise by March 2011 which was marginally higher than RBI's projections of 20 per cent. Investment demand in the economy had thus resumed its buoyancy.

Call rates firmed up in step with policy rates amidst tight liquidity conditions. They mostly remained above the upper bound of the LAF corridor. With strong credit growth not matched by commensurate deposit growth, many Banks financed their advances by raising Certificate of Deposits (CDs) at higher than their deposit rates.

**Financial Markets:**

The financial year 2010-11 commenced on a higher note for the Indian equity market. Stock prices rose on the back of strong capital inflows and impressive corporate performance. The equity market underachieved and remained volatile during the last quarter of FY 2010-11, reflecting several macroeconomic uncertainties. Overall, the BSE index rose from 17,528 as on 31st March, 2010 to 19,445 as on 31st March, 2011.

Debt markets witnessed an upward shift in G-sec yields across the curve due to RBI's tightening monetary stance. The benchmark 10-year yield hardened from 7.84 per cent to 8.23 per cent by January 2011. However, by end-March 2011, it settled at 7.98 per cent on the back of lower than expected borrowing program for FY 2011-12 and a lower than expected fiscal deficit.

The Indian Rupee, which opened at 44.77 to a US Dollar for the year, closed at 44.60 to a US Dollar as on 31st March, 2011. The Indian Rupee largely exhibited a two-way movement against major currencies, without any intervention or active capital management. Such maturity of our national currency, if it continues in future, may pave the way for renewed efforts towards capital account convertibility.

Silver surged to an all-time high of \$ 49.82 per troy ounce, while gold hit a new record of \$ 1,519 per ounce on the back of a weak US Dollar as the Federal Reserve had determined to keep interest rates near record lows. When policy interest rates are low, people keep or transfer their savings often to precious metals. FED's interest rate Policy will thus continue to fuel the demand for alternatives to the US Dollar such as precious metals.

**Overall Assessment:**

Going forward, the Indian economy is expected to experience moderate GDP growth, which may be a percentage point lesser than in FY 2010-11, with the fundamentals remaining strong. Apprehensions on the inflation front will persist over the next six to eight months and will pose a major challenge to the policy-makers as inflation continues to remain above the comfort level of RBI. With commodity prices, and in particular, crude oil prices remaining at elevated levels, the inflation dynamics for FY 2011-12 seem to be more adverse than was expected earlier. RBI is expected to maintain tighter liquidity conditions, as well as go in for tightening of Policy rates during the first half of the financial year 2011-12. **Tight money policy wiil result in higher Interest rates on deposits and advances, lesser credit growth, higher yields on G-secs – which all will, in turn, impact the profitability of Banks.**

On balance, RBI will face a complex choice of striking a trade-off between sustenance of high growth and anchoring inflation – the latter being the Holy Grail for RBI.

**Measures taken by RBI:**

RBI is engaged in a constant endeavour to deepen and improve the banking and financial sector in India through a host of measures. A few such measures taken by RBI during the financial year 2010-11 are listed below:

- RBI, which had followed an accommodative Monetary Policy in FY 2009-10, shifted its stance decisively from growth preservation to anchoring inflation. Since the beginning of the financial year 2010-11, RBI raised the Repo Rate by 175 bps from 5.00 per cent to 6.75 per cent, Reverse Repo Rate by 225 bps from

3.50 per cent to 5.75 per cent and Cash Reserve Ratio (CRR) by 100 bps from 5 per cent to 6 per cent.

- In order to maintain appropriate and adequate level of liquidity, RBI reduced the Statutory Liquidity Ratio (SLR) to 24 per cent for Scheduled Commercial Banks. It also carried out special LAF auctions and announced bond purchases under its Open Market Operations (OMO).

**Immediate Future of the Indian Economy:**

The preliminary estimates of the India Meteorological Department (IMD) indicate a normal rainfall in FY 2011-12, brightening the prospects of a higher farm output and allaying concerns over rising inflation. There is a short-term trade-off between growth and inflation. The monetary policy works by affecting the cost of credit and such a remedy used to bring inflation down will result in the moderation of growth. Alongside the increase in Policy rates by RBI, the massive fiscal compression promised in the Budget– a reduction of fiscal deficit from 5.1 per cent in FY 2010-11 to 4.6 per cent in FY 2011-12, should also prima-facie lead to slower growth. This slower growth will again put pressure on the fiscal target. Thus, over the near-term and particularly in FY 2011-12, we are in for tough times almost closer to those of FY 2009-10.

Over the long-term however, even at an annual GDP growth of 7.5 per cent to 8 per cent, India, with its favourable demographics, abundant entrepreneurial talent, high local consumption, high savings rate, hard-working populace and a strong banking system makes for a positive and promising future for our nation. There are serious issues, though of high fiscal deficit, higher governance deficit and rampant corruption at all levels, which all need to be fought with determination and relentlessness.

## 2. MAJOR DEVELOPMENTS IN BANKING AND FINANCIAL SECTOR IN INDIA:

- The BPLR system has been replaced by the Base Rate for commercial banks, effective from July 2010 and this concept has now been firmly set in the Banking Industry,
- For further strengthening the capital base of the banks, RBI has issued various guidelines on:-
  - (i) Advanced Measurement Approach for calculation of capital charge for operational risk,
  - (ii) Classification of regulatory capital instruments in their balance sheets,
  - (iii) Use of internal models for calculation of capital charge for market risk,
- RBI has expanded the categorization of activities that will be considered as 'priority sector' for lending targets,
- RBI has notified relaxations in branch licensing policy regarding Regional Rural Banks,
- RBI has asked all banks to put in place additional security measures for credit card transactions,
- RBI has issued penalties for banks in case of overcharging to credit card customers,
- RBI has constituted a Committee on customer service in banks under the Chairmanship of Shri M. Damodaran, former Chairman, SEBI. It has also constituted a Working Group for the implementation of International Financial Reporting Standards (IFRS),
- Besides imposing a monetary penalty for bouncing of SGL transfer forms, RBI has asked banks to make additional disclosures to enhance transparency in their operations:-
  - (i) Reporting of repo trades in corporate bonds to various clearing corporations,
  - (ii) Reporting of OTC transactions in Certificate of Deposits & Commercial Paper on the FIMMDA platform,
- With regard to the debt market, RBI has introduced steps for further deepening the markets as follows:-
  - (i) Stripping / reconstitution of Government securities for trading on receipt of interest coupon,
  - (ii) Allowing more participants in the