

## CHAIRMAN'S STATEMENT

### Dear Stakeholder,

The Government of India began the process of reforming Public Sector Banks (PSBs) under mission “Indradhanush” in 2015. Over the past three years, Bank of Baroda has undertaken a comprehensive transformation to not only deal with the legacy of bad loans but to create a modern and competitive Bank. Although this transformation is very much a work in progress, I would like to share some of what has been accomplished.

### What has been done to fundamentally reduce the risk of bad loans and frauds?

Japanese companies like Toyota taught the world that quality must be prevention-driven not inspection-driven. A similar revolution is needed within PSU banks. Public sector banks are accident-prone by design and can only be fixed by making fundamental changes to the architecture, process controls and culture. Frauds and bad loans cannot be reduced simply by fear of staff accountability and ex-post investigations.

Over the last three years, there has been a massive effort at Bank of Baroda to redesign processes and to strengthen controls and compliance. The Bank has moved to a modern frontend/backend decision architecture. Account opening, processing and approval of retail loans, forex and trade finance transactions have been moved from branches to a centralised back office. This ensures that there is a clear segregation of duties. Branches are only servicing customers; transaction processing is done at Shared Services Center in Gift City, Gandhinagar. All processes are being digitized to provide greater transparency and control. A dedicated and independent Fraud Risk Management Unit has been setup to monitor and mitigate fraud risks proactively and an enterprise fraud risk management system is being deployed which is integrated to Bank's overall risk management platform. A web based compliance management has been implemented across India. With a high degree of digitization, the Bank increasingly has access to enormous transaction data and this is enabling the Audit paradigm to evolve from manual, decentralized, transaction driven and ex-post to being preventive, analytical, intelligent and real time. Such a transformation will take time because it requires a change of mindset and capability.

To reduce the risk of bad loans, the Bank has moved to a new risk based pricing for retail customers leading to a sharp improvement in risk profile. The percentage of customers with credit bureau score < 725 is down from 19% to 1% and those with scores above 725 has increased from 41% to 63%. This approach along with a strong centralized collections team, is crucial to being able to rapidly expand our retail lending. On the corporate side, public sector banks have been



Ravi Venkatesan  
Chairman

plagued by an “adverse-selection” problem where the least desirable customers target the banks rather than the banks targeting the most desirable customers. Bank of Baroda has shifted to a “target customer driven approach” where we proactively reach out to the most desirable customers with differentiated value propositions. The identification of target customers has been completed along with the establishment of risk based credit limits. Account plans are in place at major metro centres covering 80% of corporate credit and these accounts and plans are owned and executed through dedicated Relationship Managers (RMs). This has resulted in a significant change in the risk profile of our corporate customers. Now two-third of customers are above investment grade up from a 44% three years ago. These are but a few examples of the paradigm shift in lending practices at our Bank.

### What has been done to make Bank of Baroda more competitive?

Public sector banks have been hemorrhaging market share to their private sector competitors for some years. With many banks already under Prompt Corrective Action, this share erosion is likely to accelerate. Margins and profitability are also under significant stress. These are predictable outcomes; banking is becoming a more sophisticated game where technology, analytics and expertise are becoming ever more vital. Public sector banks have to make the shift or lose out.

Over the past three years, Bank of Baroda, has been able to make significant strides in becoming competitive and improving market share and profitability. The Bank has added



more than 23mn customers over a span of 36 months with the customer base now at 78mn. CASA deposits have been growing with the CASA ratio rising by 8% to 41.2% over the period. During this year, retail lending has grown by 42% and corporate lending by 16%. MSME and Agricultural lending has also grown. These results are the consequence of several underlying initiatives.

On the consumer front, the Bank has invested massively in technology to improve the customer experience. For instance, new savings accounts now can be opened in a few minutes in a paperless format through Tablets. Significant improvements have been made to internet and mobile banking applications. Customer service is improving although there is a long way to go yet; service levels in the Bank's call centre operations have now improved to more than 93% compared with sub-60% earlier. Turnaround time in closing customer complaints satisfactorily has come down substantially; 74% of customer complaints are closed within 7 working days. Customer service has been included as a KRA at the branch level.

Besides process revamping, new product innovation has also been a big focus and competitive products have been launched across all segments. These include Supply Chain Financing, Cash Management (Baroda DigiNext), Trade Finance platform- BarodaINSTA (Baroda Integrated Solution for Trade Finance Access), customised products such as gold loans, horticulture loans, wealth management services, educational, mortgage and automotive including commercial vehicle financing.

### International Business

Bank of Baroda is rightly called "India's International Bank". However, as the global order readjusts, there is a need to rethink on the Bank's international footprint. The Bank has undertaken a comprehensive strategic reassessment of its international presence based on business potential and risks. This has resulted in a decision to exit a number of countries including Bahrain, Guyana, Bangkok and South Africa. Discussions are underway with other PSBs for further consolidation of territories. In the future, the Bank will focus on the US, UAE and UK and develop stronger ties with Japan and Korea to take advantage of rapidly growing commerce with these countries.

### Technology

Banking is rapidly becoming a technology driven business and consequently, the Bank has invested massively in upgrading its technology capability. The Bank's main core banking platform has been upgraded; this has enabled customer-friendly internet and mobile banking and the seamless integration of many digital applications that work across various devices. Nearly 40+ new enterprise applications including a Supply Chain Financing solution, Cash Management System, Trade Finance Portal, Loan Management System, Fraud Management System, Central

Compliance Management System, Digital Document Management System have been implemented. When these are fully deployed and integrated by the end of FY 2019, Bank of Baroda will have world class IT capability. Our Bank is amongst the first to establish a "Fintech" vertical; with over twenty partnerships delivering significant business already, BOB is seen as an emerging leader in this vital new arena.

Impressive as our catch-up has been, technology is a rapidly evolving arena. To ensure that Bank of Baroda remains at the leading edge of banking technology, an IT Subsidiary has been established with partnerships with world class companies like IBM and Accenture for IT and Analytics respectively.

### People & Organization

Public Sector banks face a significant shortage of talent especially more senior leaders who are able to drive performance and change. There is also an acute shortage of expertise in areas like technology, risk management and fraud control. To address this, our Bank has made very significant investments in improving leadership and people capabilities. One of the most important is a comprehensive leadership development initiative called 'We lead', with the objective of building a strong and sustainable pipeline of leaders for our Bank. Over 2700 high potential managers from Scale I to Scale VII have been carefully identified and are being developed into future leaders through a variety of intense interventions over the span of a year. This program is also integrated with succession planning.

To become a learning organization, employees are encouraged to continuously acquire new skills through a new "life cycle concept of training". Alternate learning channels such as the Baroda Academy mobile application and Baroda Radio try to make learning fun and encourage learning on the go providing bite sized content, videos, audios, quizzes and games. On the Bank's e-learning platform, our Baroda Net Academy now hosts more than 230 modules and more than 7 lakh courses were completed by employees during year FY 2018.

Investments in internal talent development have been selectively augmented by hiring experts from the market with specialised knowledge and skill sets on a contract basis. Striking an appropriate balance between talent promoted from within and selective assimilation of expertise from outside will be a critical success factor for public sector banks.

The Bank introduced a new Performance Management System for employees called Baroda GEMS (Growth & Empowerment Management System). Baroda GEMS is a state of the art, mobile-accessible system which enables individual goal setting, continuous feedback and coaching. A business analytics back-end gives management unprecedented drill-down capability. GEMS is expected to deliver a big leap in transparency, accountability and development.



### Governance

Bank of Baroda has a committed and highly engaged Board. In FY 2018, the Board met 13 times for 15 days; median attendance was 92% with half the Directors having 100% attendance. In addition, the Management Committee met 37 times and the Audit Committee 15 times.

In FY 2018, the Board consciously spent over half of its time on business strategy and execution and risk mitigation.

In order to strengthen the Board, we have inducted expert Advisors onto Committees of the Board particularly in the areas of Risk Management, IT, HR and Financial Inclusion. This has been very helpful.

This is the second consecutive year when an independent review of Board effectiveness was conducted by an external agency and this has further strengthened processes and board dynamics.

### Results

The consequence of Bank of Baroda embarking on a fundamental transformation exercise in 2015 is that it has

emerged as one of the strongest large banks in India. Early recognition and cleaning of books has resulted in a provision coverage of 67.21% which is highest amongst public sector banks. Capital adequacy ratio of 12.13% remains above regulatory requirements. Credit growth has been accelerating. Net Interest Margin has been improving and operating profits have grown 24% in FY 2017 and 9% in FY 2018.

I am confident that as the economy strengthens, as credit offtake improves, as the NPAs get resolved, Bank of Baroda will be able to grow profits strongly.

Finally, I would like to thank our employees for their hard work and commitment and also thank our customers, extended partners and all stakeholders for your trust and support during this critical phase of Bank of Baroda.

**Ravi Venkatesan**  
Chairman