



from technically written off accounts increased by 90%. The operating expenses registered increase of 9.4%.

The Bank posted an operating profit of ₹ 12,006 crore registering an increase of 9.4%. Total provisions increased by 74% and higher GNPA pool led to increase in provisions for NPAs by 85%, leading to Bank posting loss of ₹ 2,431.8 crore. On account of this, there was no amount transferred to statutory and capital reserves and the loss amount was appropriated from general reserve.

Reflecting on the improved operating performance, the net interest margin (NIM) improved from 2.19% to 2.43%. This was led by reduction in the average cost of funds to 4.56% from 4.82% and almost flat average yield on funds. The cost to income ratio remained steady at 45.87%.

Capital Adequacy Ratio (CAR) in %

	31.03.17	31.03.18
Capital Adequacy Ratio – Basel III	12.24	12.13
CET-I	8.98	9.23
Tier – I	9.93	10.46
Tier – II	2.31	1.67

The capital adequacy ratio of the Bank at 12.13% continues to be above regulatory requirements as of March 31, 2018. The Tier 1 capital was 10.46% and Common Equity Tier 1 (CET-1) was 9.23%. The consolidated group capital adequacy ratio was higher at 12.87%.

During the year, Bank made preferential allotment of 34,13,56,534 shares of ₹ 2 at a price of ₹ 157.46 per share amounting to ₹ 5,375 crore to Government of India. Accordingly paid up equity share capital of the Bank increased by ₹ 68.27 crore. Bank also raised ₹ 1,350 crore through issuance of Additional Tier-1 bonds.

Bank’s net worth as of March 31, 2018 was ₹ 31,820.2 crore comprising of paid-up equity capital of ₹ 530.36 crore and reserves of ₹ 31,289.9 crore (excluding revaluation reserves, foreign currency translation reserves and other intangible assets). The book value of the share (FV ₹ 2/-) was ₹ 120.28.

Dividend

Bank is not eligible to pay dividend for the financial year 2017-18 on account of not meeting the eligibility criteria stipulated by Reserve Bank of India for this purpose.

Management Discussion and Analysis

Global Economy

Global economy grew at the fastest pace since 2011 at 3.8% in CY 2017, up from 3.3% registered in CY 2016. Advanced economies (AEs) are benefitting from a cyclical recovery and decline in unemployment which is resulting in higher consumption. At the same time, lower interest rates are boosting investment, particularly in housing. In CY 2017, Advanced Economies (AEs) are estimated to have grown by 2.3%, compared to 1.6% in CY 2016. Asian economies are also showing higher growth as a result of export recovery as well as higher domestic consumption. Emerging Market and

Developing Economies (EMDEs) registered a robust growth of 4.8% in CY 2017 compared with 3.7% in CY 2016 largely driven by India (6.7%) and China (6.9%).

The most notable change in the global economy last year was uptick seen in global commodity prices which increased by 6.8% in CY 2017 vs (-) 1.2% in CY 2016 and (-) 14.1% in CY 2015. As a result commodity exporting countries such as Brazil, Russia and OPEC are seeing improvement in external account and fiscal position which will bolster their economic growth.

However, with higher global commodity prices inflation will also rise. In AEs inflation increased to 1.7% in 2017 from 0.8% in 2016. As unemployment levels fall further, inflation is likely to gather more momentum thus resulting in withdrawal of accommodative monetary policies by AE central banks. Global yields will be higher in 2018 and beyond.

In addition, fiscal stimulus announced by the U.S. will also boost global growth. The cyclical upturn is likely to lead to global growth rising to 3.9% in CY 2018 and CY 2019. According to World Economic Outlook released by IMF in Apr’18, AEs are projected to grow at 2.5% in CY 2018 before slowing down to 2.2% in CY 2019, while EMDEs will grow at 4.9% in CY 2018 and further at 5.1% in CY 2019. Within emerging markets, India will lead the way, followed by China, ASEAN-5, and Sub-Saharan Africa.

Indian Economy

Indian economy witnessed transitional slowdown in FY 2018 as growth slipped to 6.6% from 7.1% in FY 2017 as a result of structural reforms implemented by the Government. The decline was led by manufacturing sector which posted a growth of 5.1% in FY 2018. Most of the impact was concentrated in H1 when manufacturing growth slipped to 2.6%. However, manufacturing sector did see a turnaround with growth improving to 6.4% in H2. Even agriculture growth slipped to 3% in FY 2018 from 6.3% in FY 2017 on the back of unseasonal rainfall and high base effect. Services sector led the growth momentum in FY 2018 at 8.3%, mainly attributable to Government spending and uptick in trade, hotels, transport, and communication segment.

With growth slowing down in FY 2018, retail inflation also dipped to a low of 3.6% in FY 2018. The decline was led by food inflation which fell to 1.8% in FY 2018 from 4.3% in FY 2017. On the other hand, retail inflation excluding food and fuel (core) increased by 4.7% in FY 2018 compared to 4.8% in FY 2017. Upward pressure in core inflation was visible in H2 at 5.1% compared with 4.3% in H1. Higher international oil prices along with statistical impact of implementation of 7th pay commission drove core inflation higher. Notably, upward pressure is visible across different categories of core inflation as gap between potential and actual output narrows.

Recent economic indicators are showing steady upturn in the economy. Credit growth is improving, investment activity as measured by gross fixed capital formation is increasing in double digits, airlines are reporting record increase in passenger travel and car and two-wheeler sales are inching up. Government has announced a new MSP policy from this Kharif season which will ensure much higher



income for farmers, which in turn will be a boon for rural consumption. Urban consumption will get a boost as State Governments have started implementing 7th pay commission recommendations.

As a result economic growth is estimated to increase to 7.4% in FY 2019. Higher growth will be accompanied with higher interest rates. Not only increase in inflation, but also reduction in surplus liquidity with banking system (now at neutral level from surplus position earlier) might put upward pressure on interest rates. Higher rates will be observed globally as well. US Fed is likely to continue to raise rates in 2018 and 2019.

Developments in Indian Banking

FY 2018 began with muted credit growth and high liquidity with banks due to impact of demonetization. The credit growth continued to be low in first half of the year. However, it picked up in the second half and FY 2018 ended with a 10.3% growth. However, deposit growth rate at the end of year was muted at 6.7% due to base effect and currency withdrawals.

On the banking front, a major step taken by the Government was recapitalizing the public sector banks with an infusion plan of ₹ 2.11 lakh crore including ₹ 1.35 lakh crore through recapitalization bonds and ₹ 76,000 crore via budgetary support and raising of funds by banks through capital markets. It should help address the overhang of NPLs and ease lending constraints thereby contributing to growth. For us, it provides growth capital to continue to focus on delivery of healthy credit growth in 2018-19 and onwards.

An important part of recapitalization programme is that the second stage of the recap is linked to banks performance on PSB Reform Agenda of Government which is aimed at EASE – Enhanced Access and Service Excellence, focusing on six themes of customer responsiveness, responsible banking, credit off take, PSBs as Udyami Mitra, deepening financial inclusion & digitalization and developing personnel for brand PSB. Under each of above six themes detailed action points have been stipulated along with timeline for implementation.

The year also saw implementation of Insolvency and Bankruptcy Code (IBC) enacted by the Government in 2017. Its implementation has made the resolution of stressed assets possible within defined time frame and making it feasible for corporates to exit or attempt a revival of their businesses while preserving the economic value of the assets, thereby making a change in NPAs climate for the banks. A significant percentage of NPAs of banking industry are under IBC process. Being a new legislation the process is taking its time to stabilize. The early successes particularly in sectors like iron and steel, cement are visible.

The non-performing loans in the banking system further increased in quarter ended in March 2018 after RBI revised framework for resolution of stressed assets in February 2018 repealing existing schemes like SDR, S4A, 5/25, CDR, etc. and discontinuing the JLF mechanism. This marks the final stage of a multi-year initiatives of RBI to recognize problem assets more accurately. With these guidelines, RBI has fully aligned the stressed asset resolution process to IBC. It has

increased already high NPL ratios and provisioning burden of banks and strained their profitability in the near term. Going forward, cleaner and recapitalized balance sheets should help the banks to move forward leaving legacy asset quality issues behind. Further, with this step, RBI is also preparing the banking system for implementation of Ind-AS from the next financial year.

Apart from above, there were some serious issues relating to risk management, internal controls and audit quality in the banks arising out of incidents of frauds and the need for plugging the process gaps. The regulator has reviewed these incidents; initiated corrective measures and issued guidelines to ensure that the systems, business practices, operational processes and risk management practices for the sector are robust and safe.

On interest rates, the bond yields hardened during second half of FY 2018 as surplus liquidity dried up. The rise in bond yields led to reporting of mark to market losses on treasury portfolio by many banks in second and third quarter of FY 2018. To impart relief, RBI allowed banks to provide for such MTM losses over a period of four quarters of FY 2019. This also led to increase in term deposit rates as well as MCLR rates of the commercial banks during the said period.

Business Performance

The highlights of business performance of our Bank is as below:

Resource Mobilization and Credit Expansion

(₹ in crore)

Particulars	31.03.17	31.03.18	Growth (%)
Deposits	6,01,675.2	5,91,314.8	(1.7)
of which- Domestic Deposits	4,40,092.2	4,66,973.8	6.1
International Deposits	1,61,583.0	1,24,341.0	(23.1)
Domestic Deposits	4,40,092.2	4,66,973.8	6.1
of which - Current Account Deposits	26,761.8	31,193.1	16.6
Savings Bank Deposits	1,46,831.8	1,61,130.0	9.7
CASA Deposits	1,73,593.6	1,92,323.1	10.8
Domestic CASA Deposits (%)	39.44	41.18	
Advances	3,83,259.2	4,27,431.8	11.5
of which- Domestic Advances	2,77,523.7	3,24,238.5	16.8
International Advances	1,05,735.5	1,03,193.3	(2.4)
Total Assets	6,94,875.4	7,19,999.8	3.6

Resource Mobilisation:-

The domestic CASA deposits registered a growth of 10.8% on increased base of previous year. The CASA deposits



ratio increased to 41.18% from 39.44% last year. The growth of term deposits was muted at 6.11% as a part of liability management and surplus liquidity with the Bank. Deposits in international operations de-grew by 23.1% as a part of strategy to bring down low yielding assets including placement assets in the international book. As a result, the total deposits saw a marginal decline of 1.7%.

For a sustained growth of deposits including low cost CASA, Bank has taken number of steps to improve our processes and strengthen the product proposition to meet the increasing requirement of the customers. The entire account opening process for savings account has been digitized through tablets leading to a turn-around time of few minutes. All the branches pan India have been enabled by this digitized process and its scope will be further extended. Bank has introduced value added services for HNI customers under “Baroda Radiance”. This includes offering of services under wealth management suite, differentiated banking services and preferential pricing. During the year, Bank launched cash management product to meet the demands of our business customers. The product has been well received. Besides, Bank has undertaken number of initiatives like revamping of mobile banking app, launch of m-passbook, launch of mobile app for wealth management named as Baroda M-Invest, strengthening our e-payment products, tie-up with multiple payment aggregators, etc.

Credit Expansion:

During the last financial year, Bank had focused on re-balancing of the loan book and execution of transformation initiatives including on credit processes. With their execution taking shape, Bank continued to have healthy credit growth. The domestic credit registered a growth of 16.8% during the year. The growth was led by retail and was well spread in other business verticals viz. corporate, MSME and agriculture. Retail loan growth was 42.4% while corporate loan growth was 16.8%. The ratio of retail loans to total domestic loans increased from 19.5% to 23.5% during the year. The international loan book declined marginally by 2.4% on account of continued focus of the Bank on re-balancing and decline of buyers’ credit book after the discontinuation of issuance of LoUs by the Indian banks as per regulatory guidelines. On account of latter, the international loan book will de-grow further during FY 2019.

The total assets of the Bank increased by 3.6% from ₹ 6,94,875.4 crore to ₹ 7,19,999.8 crore as on March 31, 2018.

Operating Performance:

The highlights of operating performance of Bank are as below:

(₹ in crore)

Particulars	31.03.17	31.03.18	Growth (%)
Interest Earned	42,199.9	43,648.5	3.4
Interest Expended	28,686.5	28,126.8	(2.0)

Particulars	31.03.17	31.03.18	Growth (%)
Net Interest Income (NII)	13,513.4	15,521.8	14.9
Other Income	6,758.1	6,657.2	(1.5)
of which-Fee Income	2,837.4	3,249.7	14.5
Forex Income	975.9	909.2	(6.8)
Trading Gains	2,618.0	1,877.6	(28.3)
Recovery from PWO	326.8	620.7	90.0
Operating Income (NII + Other Income)	20,271.5	22,179.0	9.4
Operating Expenses	9,296.4	10,173.4	9.4
Employee Expenses	4,637.8	4,606.9	(0.7)
Other Operating Expenses	4,658.6	5,566.5	19.5
Operating Profit	10,975.1	12,005.6	9.4
Provisions	8,502.4	14,796.4	74.0
of which:	7,679.8	14,211.7	85.1
Provisions for NPAs & Bad debts written off			
Provision for Standard Advances	776.6	(369.0)	-
Provision for Depreciation on Investment	19.3	768.2	3,880.3
Other Provisions	26.7	185.5	594.8
Profit Before Tax	2,472.7	(2,790.7)	-
Provision for Tax	1,089.6	(358.9)	-
Net Profit	1,383.1	(2,431.8)	-

Key Performance Indicators (%)	31.03.17	31.03.18
Cost of Deposits - Global	4.78	4.50
Cost of Deposits – Domestic	6.08	5.48
Cost of Deposits – International	1.18	1.33
Yield on Advances – Global	7.27	7.13
Yield on Advances (Domestic)	9.10	8.87
Yield on Advances (International)	2.68	2.70
Net Interest Margin – Global	2.19	2.43
Net Interest Margin – Domestic	2.64	2.88
Net Interest Margin – International	1.05	1.10
Cost-Income Ratio	45.86	45.87
Return on Average Assets (ROAA)	0.20	(0.34)
Return on Equity	4.53	(7.64)

The interest income of the Bank increased by 3.4% from ₹ 42,199.9 crore in FY 2017 to ₹ 43,648.5 crore in FY 2018. The



yield on advances slightly decreased to 7.13% from 7.27%. The yield on domestic advances was 8.87% during FY 2018 against 9.10% during FY 2017. The reduction was on account of reversal of interest in SDR, S4A and NPA accounts and gradual migration of loan book under base rate to MCLR. The yield on international loan book slightly increased reflecting the global interest rate environment.

Total interest expenses declined by 2.0% from ₹ 28,686.5 crore in FY 2017 to ₹ 28,126.8 crore in FY 2018 due to improved liability management. The domestic cost of deposits decreased to 5.48% in FY 2018 from 6.08% in FY 2017. The cost of deposits in international book increased from 1.18% to 1.33% in line with global interest rate environment.

The net interest income (NII) of the Bank increased by 14.9% to ₹ 15,521.8 crore during FY 2018 from a level of ₹13,513.4 crore in FY 2017. The net interest margin (NIM) improved from 2.19% to 2.43% during FY 2018. Domestic as well as international NIM also improved from 2.64% to 2.88% and 1.05% to 1.10% respectively.

Other income of the Bank marginally decreased by 1.5% to ₹ 6,657.2 crore on account of decline in treasury gains by 28.3% to ₹ 1,877.6 crore. However, core fee income of the Bank increased by 14.5% to ₹ 3,249.7 crore. Recovery from written-off accounts was higher at ₹ 620.7 crore registering an increase of 90%.

Operating expenses increased by 9.4% to ₹ 10,173.4 crore in the year. While employee cost decreased by 0.7% during the year to ₹ 4,606.9 crore, other operating expenses increased by 19.5% to ₹ 5,566.5 crore. The increase was on account of higher depreciation charge on revalued assets.

Reflecting on the improved operating performance, operating profit of the Bank grew by 9.4% to ₹ 12,005.6 crore during FY 2018. Total provisions increased by 74.0% to ₹ 14,796.4 crore while provision for NPAs increased by 85.1% to ₹ 14,211.7 crore in FY 2018. As a result, Bank posted a net loss of ₹ 2,431.8 crore in FY 2018 against net profit of ₹ 1,383.1 crore in FY 2017.

Medium and Long-Term Strategy of the Bank

It is the firm belief of the Bank that continuously evolving sound business processes and practices are the drivers of quality and profitable business growth on sustainable basis. During 2016, Bank embarked upon a comprehensive business transformation exercise christened "Project Navodaya". Bank aims to drive accelerated and profitable growth by bridging the gap with competition. Bank is pursuing a differentiated strategy to build a contemporary full-service universal bank and be India's premier bank with global standing.

The execution of this vision is through initiatives across business units and functions and is structured along 5 key dimensions:

- transform and grow 'core' business units (retail, corporate, MSME, agri & rural and the international), while managing the stressed assets

- building the capabilities for the future (e.g. new products like Supply chain financing, Cash Management, Digital, Wealth Management and centralization of operations to improve efficiency)
- 'nurture' the organization and 'unleash' the talent pool through dedicated leadership and talent initiatives
- 'embed change' and 'sequence' change through focused efforts on execution and capability building and
- building new alliances and partnerships.

Continuing Business Transformation Journey- Project Navodaya

To drive the above initiatives, a Project Management Office (PMO) has been set up supported by change leaders for cascading the change management to ground level. The execution of the project is progressing steadily on course in this transformation journey cutting across all segments of businesses, functions/processes which include focus on key aspects of its operations, including collections and recovery, risk management, compliance and controls, governance framework, market and brand building, and digitization and technology.

During the year, number of initiatives have been executed/ are in advanced stage of execution. The details of initiatives executed have been mentioned in statement of MD & CEO on page 9. Details of some of the steps taken are also mentioned in the respective item in the Director's Report.

Corporate Credit

Corporate credit in the Bank is serviced at -9- Corporate Financial Service (CFS) branches and -5- Emerging Corporate branches which are managing about 80% of the corporate credit portfolio of the Bank. During FY 2018, the corporate credit registered a growth of 16.8% from a level of ₹ 1,41,069 crore as on March 31, 2017 to ₹ 1,64,783 crore as on March 31, 2018. During the year, Bank approved fresh / enhanced credit in 330 accounts.

During the year, the transformation initiated during FY 2017 was carried forward. Under the target market approach adopted by the Bank, the target markets have been clearly defined and simplified target account plans put in place at major metro centers. These are executed through dedicated Relationship Managers (RMs). In addition, Bank has put in place a team of sector specialists at corporate office. The number of layers for credit processing originating from CFS and Emerging Corporate branches has been reduced to one i.e. at centralized processing cell (CPC) at corporate office. A separate R & D wing has been set-up in corporate credit to provide industry updates to marketing and processing teams. International business is being leveraged as competitive advantage by synergizing domestic and international business by offering multiple currency facilities.

With the revamp in approach towards corporate credit delivery, the risk profile of the portfolio further improved during FY 2018 as observed by the rating distribution of domestic credit portfolio as below:

Credit Rating distribution*	31.03.17	31.03.18
A & above	39.27%	52.37%
BBB	15.77%	14.90%
Below BBB	21.80%	19.72%
Unrated	23.16%	13.01%

*External rating distribution of advances above ₹ 5.00 crore.

To update our product offerings, Bank launched fully digitized and integrated supply chain financing and cash management products. These products have fully digitized transaction processing capability. In addition, a new digital trade finance platform- BarodaINSTA (Baroda Integrated Solution for Trade Finance Access) was launched. It is a comprehensive solution with objective of achieving faster processing and automation in trade finance. Currently it is launched for -2- products viz. Import LCs and Import Bills payments and its scope will be extended further. Back office work relating to forex transactions and trade finance transactions was centralized at Trade Finance Back Office (TFBO) at Bank's Shared Service Centre at Gift City, Gandhinagar, Gujarat.

MSME Credit

MSME is a vital sector to the nation's economy and provides employment to millions of people. Bank supports credit to this vital sector through 45 SME loan factories and a wide network of branches.

Supporting the Government efforts under Mudra scheme on employment generation, Bank lent ₹ 5,093 crore thereby achieving 121% of the set targets and stood 1st for lending under this scheme. Bank also ranked 1st under Stand-up India program in disposal of applications on Udyamimitra portal. In the Gram Swaraj Abhiyan, Bank exceeded the allocated targets in the states of UP and Rajasthan where Bank is the convener of SLBC. The Bank's MSME credit portfolio increased from ₹ 48,545 crore as of March 31, 2017 to ₹ 51,730 crore as of March 31, 2018.

To provide access to working capital to MSMEs at competitive rates on Trade Receivables electronic Discount System (TReDS), Bank was first to onboard on all the three TReDS platforms launched. As on March 31, 2018, Bank accounted for 22% of the business carried on the platform. In support of Government initiative to encourage digital transactions, Bank launched Baroda e-business pack for financing MSME units. To mitigate working capital pains of MSMEs arising out of GST implementation, Bank launched a special product for financing against GST receivables.

A fully digitized supply chain financing product launched by the Bank has provided a new vehicle for sourcing of MSME customers viz. vendors and dealers of anchor corporates. The cash management solution will also help in augmenting the efficiency of working capital through digitization of cash management. Bank also entered tie-ups / partnerships with e-commerce players and started providing credit to the sellers on the digital platform. Tie-ups /partnerships with FinTech players has led to value additions in terms of improved due diligence, better marketing opportunities and faster service delivery. Bank also entered into MoUs with multiple players

in the field of transportation, travel, health care, food, dairy, etc. to provide credit to units under these niche sectors. In addition, Bank has -13- area specific schemes for financing SME clusters and -16- specific products for MSME customers.

Towards transformation of the business vertical, Bank commissioned a dedicated collection centre for MSME borrowers. To ensure consistency in underwriting, faster turnaround time and timely collections, Bank has plans to centralize MSME loan processing, approval, disbursal and monitoring. It has been implemented at -2- centres viz. Mumbai and Delhi with plans to roll out further. For making available timely credit to beneficiaries under Government schemes, Bank is in process of setting up a centralized cell in each district for processing of such loan applications.

Retail Credit

Retail Credit in our Bank is primarily dispensed through -74- Specialized Mortgage Stores (SMSs) and a wide network of branches. During the year, Bank opened -3- new SMSs at Bhillwara, Hubballi and Bengaluru.

With most of the transformation initiatives executed during FY 2018, the retail credit registered a healthy growth of 42.44% during FY 2018 to ₹ 82,604 crore. Within retail loans, home loans grew by 48.20% to ₹ 44,711 crore; auto loans by 30.33% to ₹ 5,727 crore and other mortgage loans by 12.90% to ₹ 14,125 crore. This led to increase in size of retail loan book to 23.5% as on March 31, 2018 as against 19.5% at the end of previous year. The transformation initiatives executed include simplifying retail loan approval and underwriting process; augmenting distribution channels in addition to existing branch channels; extending the centralized mortgage loan processing by adding more geographies etc. Centralization of the processing of non-mortgage loans viz. auto and education loans was initiated and has been currently done in Mumbai. Bank has already introduced risk based pricing and commissioned dedicated retail loan collection centre.

With the revamp in approach towards retail credit delivery, the risk profile of the portfolio has improved. The percentage of customers with credit bureau score <725 has come down from 19% to 1% and those with scores >725 has increased from 41% to 63% between April 1, 2016 and March 31, 2018.

Rural and Agricultural Lending

The Bank has a network of 1,833 branches in rural and 1,537 branches in semi-urban areas which is leveraged for priority sector and agriculture lending. During FY 2018, Bank opened 37 new rural and semi urban branches. Bank is the Convener of State Level Bankers' Committee (SLBC) in the states of Uttar Pradesh and Rajasthan and shoulders the Lead Bank responsibility in 48 districts; 14 in Gujarat, 12 in Rajasthan, 15 in Uttar Pradesh, 2 each in Uttarakhand, Madhya Pradesh and Bihar and 1 in Delhi.

Bank continues to be front runner in lending to agriculture sector. The sector got impetus with the Government's target of doubling the income of the farmers by FY 2022. During the year, Bank issued 1.19 lakh kisan credit cards. Baroda Kisan RuPay Card, an ATM enabled smart card, was issued to 12.89 lakh farmers. Bank financed 2,14,547 new farmers



during FY 2018 granting them loans worth ₹ 3,834.9 crore. As a part of its microfinance initiatives, Bank linked 22,708 Self Help Groups by granting loans amounting to ₹ 308.6 crore. To facilitate credit linkage of Farmer Producer Organisations (FPOs), the Bank tied up with agencies. Including under Maharashtra Agricultural Competitiveness Program (MACP). Bank was awarded for being best performer in SHG bank linkage for FY 2018. The Total agricultural advances as on March 31, 2018 were well above the regulatory requirements.

The key elements of Bank's agriculture and rural strategy continue to be developing an ecosystem of alliances and partnerships with financial services providers, agri finance companies, insurance companies, private equity firms seed and fertilizer companies, warehouses and cold-storages, Agri universities, drip irrigation companies etc. The underlying idea is to increase the farm productivity; enhance the income of farmers and serve the rural economy. Bank has set-up an integrated rural banking organization that caters to the agri and financial inclusion initiatives. The strategic partnerships entered include key agri players building the rural ecosystem like agri tech companies which provide technical knowledge to the farmers right from crop selection to marketing; leading micro irrigation companies; collateral managers to finance farmers to prevent distress selling; dairy companies, etc. Bank has moved beyond granting simple farm credit to a more diversified rural lending strategy focusing on new products across rural customer segments like farm mechanization, horticulture loans, warehouse receipt financing, food and agro processing and adopting a community based lending model for the small farmers and communities.

During the year, Bank was awarded winner in agriculture lending in large bank category in Agriculture Banking summit-cum Social Banking excellence Award ceremony organized by ASSOCHAM.

Priority sector lending

Priority sector advances of the Bank increased from ₹ 1,27,672 crore as of March 31, 2017 to ₹ 1,49,629 crore as of March 31, 2018. Bank was well above the mandated levels of priority sector advances and its other sub-components.

Advances to SC/ST Communities

The outstanding advances to SC/ST communities went up from ₹ 5,312 crore as of March 31, 2017 to ₹ 5,765 crore as of March 31, 2018. SC/ST communities accounted 14.4% share in total advances granted to weaker sections by the Bank. Furthermore, a special thrust is laid by our Bank in financing SC/ST under various Government sponsored schemes such as National Rural Livelihood Mission (NRLM), Start-up India and Stand-up India.

Stand-Up India

The Stand-Up India initiative of the Government is aimed at promoting entrepreneurship among SCs/STs and women. In FY 2018, Bank sanctioned ₹ 552.7 crore under the scheme. With a view to enlarge the foot print in delivery of products and services in MSME eco-system, Udyamimitra, an interactive portal has been launched which leverages IT architecture of Stand-Up Mitra portal. Bank was ranked 1st under Stand-up

India program in disposal of applications on this Udyamimitra portal.

Performance of RRBs Sponsored by Bank of Baroda

The Bank has sponsored three Regional Rural Banks (RRBs): Baroda Uttar Pradesh Gramin Bank, Baroda Rajasthan Kshetriya Gramin Bank, and Baroda Gujarat Gramin Bank. The aggregate business of these three RRBs rose to ₹ 55,064 crore as of March 31, 2018 from ₹ 49,854 crore as of March 31, 2017, registering a growth of 10.5%. The three RRBs together posted a net profit of ₹ 208.6 crore during FY 2018 against ₹ 202.3 crore in the previous year. The Net Worth of these RRBs put together improved from ₹ 2,221.9 crore as of March 31, 2017 to ₹ 2,401.7 crore as of March 31, 2018.

Financial Inclusion (FI)

In order to provide universal banking services to all sections of the society especially to rural/urban poor at an affordable cost, Bank has taken financial inclusion as a social commitment and also an opportunity to tap business through sustainable ICT based delivery channels. The Bank has been actively working towards ensuring financial inclusion in the country through our branch and BC network. With advent of technology, innovative steps are being taken for serving in unbanked areas. Bank has deployed around 14,659 BCs to cater to 21,826 villages and semi urban and urban areas across the country.

Total number of accounts under financial inclusion stand at 312 lakhs with a balance of ₹ 9,689 crore as on March 31, 2018. Average balance in these accounts increased from ₹ 2,873 to ₹ 3,105 during the year. The number of zero balance accounts reduced to 11.5% from 16.9%. The amount transacted through FI accounts during the year was ₹ 58,033 crore and the number of transactions carried through BCs were 2,229 lakhs.

Towards promoting financial inclusion along with digital program of the Government, Bank has taken a number of initiatives which include:

- Digitized account opening by instant opening of accounts enabled by Aadhar seeding, with PIN generation through tablets and account opening kiosks with spot debit card issuance;
- A comprehensive mobile banking solution supporting the entire rural community to eliminate cash;
- Seeding of Aadhaar through alternative delivery channels like ATM, SMS, Internet, BC points;
- Deployment of micro and table-top ATMs in rural areas through BCs;
- Expansion of the BC model;
- Driving SHG/ JLG-based lending;
- Expanding the scope of services of BCs like mobilizing deposits, follow up & recovery in small loan accounts including NPA & PWO accounts and providing special incentives for same to enable them to remain financially viable;



- Enabling enrolment of micro insurance schemes viz. PMSBY & PMJJBY through internet banking and SMS etc.
- Enabling increased utilization of bank accounts, expansive cash-in cash-out network comprising 14,659 BCs and 4 lakh POS terminals

The products / services offered at BC points are e-KYC enabled opening of BSB account, term deposit and recurring deposit account; cash withdrawal, cash deposit and fund transfer including third party transfer; immediate payment service (IMPS), Aadhaar enabled payment system (AEPS Transactions) RuPay card based transactions; deposits in current, cash credit, OD and loan account; enrollment for micro insurance – PMJJBY, PMSBY and Atal Pension Yojana; Aadhaar seeding cum authentication and mobile seeding.

Urban Financial Inclusion:

Besides people living in rural areas, large population of urban poor including migrants from villages to urban areas who have no access to formal banking services. In order to bring them under the purview of formal banking system, our Bank has deployed urban 9,177 BCs under Kiosk Model at various locations across the country.

Highlights of performance under Financial Inclusion

- Bank surpassed target set for FY 2018 in respect of total BC outlets with achievement of 107.46%.
- Bank achieved 86.19% and 126.01% of the target set for FY 2018 for BSBD account opening and amount under the same through branches.
- Bank achieved 195.76% and 237.23% of the target set for FY 2018 for BSBD account opening and amount under the same through BC points.

During the year, Bank was conferred Banking Finnoviti Award-2017 by Banking Frontiers for the initiatives taken in financial inclusion.

Highlights of Performance under PMJDY

Bank has 239.29 lakh accounts under PMJDY as on March 31, 2018, as against 196.40 lakhs at the end of previous year, an increase of 21.9%. The Bank's market share in incremental PMJDY accounts and outstanding deposits was 10.4% and 9.4% respectively. Outstanding balance in PMJDY accounts was ₹ 6,595 crore as of March 31, 2018 as against ₹ 4,747 crore at the end of previous year, an increase of 38.9%. RuPay debit Cards issued under PMJDY accounts increased to 221.50 lakh from 184.78 lakh. Aadhaar seeding in PMJDY accounts increased to 83.91% from 72.87% during the year.

Enrollment under Social Security Schemes:

The position of enrollment under social security schemes of the Government as on March 31, 2018 is as under:

Particulars (in Lakh)	Enrolment upto	
	31.03.17	31.03.18
Pradhan Mantri Suraksha Bima Yojana	44.37	59.52
Pradhan Mantri Jeevan Jyoti Bima Yojana	15.88	18.14
Atal Pension Yojana	3.56	6.33

Setting up Aadhaar Enrolment Centers

Banks, vide gazette notification dated July 14, 2017 of Government of India, have been mandated to set up Aadhaar enrolment and update centers inside the branch premises with at least one centre in every 10 branches. Accordingly, Bank has set up more than 550 Aadhaar enrolment centers as of March 31, 2018.

International Operations

In the international arena, Bank pursues strategy of driving growth and value by leveraging its relationship with Indian corporates; catering to India-linked cross-border trade flows for Indian and locally incorporated companies/firms and being preferred Bank for NRIs/persons of Indian origin.

Bank has international presence across 24 countries through 106 branches/offices. Bank has 59 branches in 16 countries while 47 branches operate through Bank's 8 overseas subsidiaries. During the year, Bank opened one off shore International Banking Unit (IBU) at International Financial Service Centre (IFSC) at GIFT City, Gandhinagar, Gujarat. Bank has two Joint Ventures: Indo Zambia Bank Ltd. in Zambia with 31 branches and India International Bank (Malaysia) Bhd. in Malaysia with one branch.

During FY 2018, Bank undertook a strategic review of its international presence based on a comprehensive evaluation framework and decided to rationalize the operations. As a part of this exercise, Bank closed down its representative office in Bangkok and one Electronic Banking Service Unit in UAE. Further, branches in Bahamas and Bahrain are under process of closure. Bank has also decided to close its operations in South Africa. During the year, the offshore banking unit in Singapore Branch was upgraded to wholesale banking unit which would enable it to conduct the business in local currency too.

During the year, Bank set up a centralized back office for account maintenance of NRIs.

As of March 31, 2018, Bank's total business from international operations was ₹ 2,27,534 crore and constituted 22.33% of the global business. Total deposits were at ₹ 1,24,341 crore while advances (net) were ₹ 1,03,193 crore. Bank continued its focus on rebalancing of the portfolio. The deposits de-grew by 23.1% which reduced low yielding assets. The loan book also declined by 2.4%. In quarter ended March 2018, RBI discontinued the issuance of LoUs/LoCs by Indian banks which has impact on the buyer's credit portfolio of banks having international presence. Accordingly, the international loan book would de-grow in FY 2019 also. Bank continuously reorients its strategy in international operations in line with the new global environment.



As of March 31, 2018, 43% of the total International loan-book comprised of Buyers' Credit/BP/BD portfolio where the exposure was on counterparty banks. 24% of the book was to Indian corporates by way of ECB/Syndicated Loans. Exposure to non-Indian entities by way of syndicated loans was 7% and remaining 26% exposure was in the form of local credit.

UK Subsidiary

Bank is in advanced stage of formation of subsidiary in UK to carve out its retail business and necessary regulatory approval has been received.

Treasury Operations

Bank's Treasury operating from Mumbai is a prominent player in various market segments such as foreign exchange, fixed income, money market, derivatives, equity, currency and interest rate futures and other alternate asset classes. The treasury offers various hedging products to Bank's customers like forward contracts, interest rate swaps, currency swaps, currency options, etc. for managing their risks.

The treasury is responsible for managing the funds position of the Bank and ensuring the safety, liquidity and optimal yield on these funds. Besides, it maintains statutory reserve requirements. It also invests in corporate bonds, commercial papers, equity, venture capital, mutual funds, etc. as a part of the fund management.

Total size of the Bank's domestic investment book as of March 31, 2018 stood at ₹ 1,55,514 crore. The share of SLR securities in total investments was 86.7%. The per cent of SLR securities to NDTL was at 28.10%.

Government Business

Government business is an important part of the Bank's strategy. It caters to the banking requirements of central/state Government and PSUs besides payment of pension across India through our branch network. Bank is authorized to collect direct taxes across its designated branches and is an accredited banker to the Ministry of Health and Family Welfare.

Bank is partnering various departments at Central and State level in developing e-solutions in line with digital initiatives of the Government of India, leading to transparency and efficiency. Bank is associated with number of new digital initiatives as strategic partner.

Bank has started collection of GST along with accreditation as well as aggregator status under Non Tax Revenue Portal (NTRP) / Public Funds Management System (PFMS).

During the year, Bank completed centralization of all state pension related payments into -6- Central Pension Processing Centres (CPPCs). Bank is serving more than 2.60 lakh pensioners.

Wealth Management

During the year, Bank commenced offering wealth management services to differentiated set of customers and launched "Baroda Radiance" services for HNIs in select cities through a dedicated team of relationship managers. Bank is in the process of putting up the necessary infrastructure to scale up the services. For offering enhanced bouquet of products to the customers, Bank extended its partnership with more players in the mutual fund arena. In addition, Bank also has corporate agency arrangement with non-life and health insurance players in the market besides agency tie-up with its joint venture partner in life insurance viz. IndiaFirst Life Insurance Co. Ltd.

Bank has launched a mobile app - M-Invest which offers paperless KYC, goal based investing, research based recommendations and straight through processing of transactions for investment in mutual funds. Bank is also implementing a dedicated wealth management solution.

In FY 2018, fee income from wealth management products registered a growth of 91%.

Stressed Asset Management

Management of stressed assets continues to be one of the biggest challenges facing the banking industry for the last few years.

During the year, the Insolvency and Bankruptcy Code (IBC) became operative. It has provided a transparent mechanism for resolution of stressed assets. By legislative amendment, RBI was empowered to issue definitive directions to the banks for resolution of assets under IBC. Accordingly, RBI mandated banks to refer certain large value NPAs to National Company Law Tribunal (NCLT) for resolution under IBC. A significant percentage of NPAs of banking system are under IBC process.

The NPAs of banking system were also impacted by revised framework for resolution of stressed assets prescribed by RBI aligning the resolution framework with IBC and repealing the earlier scheme for resolution like S4A, SDR, 5/25, CDR as also dismantling the JLF mechanism.

The Government of India in its Reforms Agenda for Responsive and Responsible PSBs directed banks for creation of Stressed Assets Management Vertical (SAMV). The Bank has a dedicated vertical for management of stressed assets. The Executive Director in-charge of stressed assets is assisted by three General Managers overseeing the entire stressed book. To strengthen the resolution of stressed assets and recovery and collection mechanism, Bank has taken number of measures like creation of a specialized cell for resolution of large value stressed assets, setting up of legal war-room, commissioning dedicated collection centres for MSME and retail loans, setting up of a separate in-house task force, introducing a special scheme for one time settlement of



loans, organizing mega e-auction of assets charged to the Bank, migration of identified high value special mention accounts to SAMV etc.

The movement of NPAs during the last -2- years was as under:
(₹ in crore)

Particulars	31.03.17	31.03.18
Gross NPA	42,719	56,480
Gross NPA (%)	10.46 %	12.26%
Net NPA	18,080	23,483
Net NPA (%)	4.72 %	5.49%
Additions to NPAs	13,312	24,239
Recovery / Upgradations	6,766	5,530
Write offs including TWOs	4,348	4,948
Recoveries in Written off Accounts	327	621
Provision Coverage Ratio (Including TWO) (%)	66.83%	67.21%
Provision Coverage Ratio (Excluding TWO)(%)	57.68%	58.42%

Banks continues to have high provision coverage against NPAs providing strength to the balance sheet. The coverage ratios are highest amongst the public sector banks.

The breakup of advances portfolio of the Bank as per asset classification was as under-

(₹ in crore)

Asset Category	31.03.17	31.03.18
Standard Advances	3,65,792	4,04,264
Gross NPA	42,719	56,480
Total Advances (Gross)	4,08,511	4,60,744
Gross NPAs comprising of		
Sub-Standard	8,804	13,131
Doubtful	29,186	35,447
Loss	4,729	7,903
Total Gross NPA	42,719	56,480

During the year, Bank approved one time settlement in 24,362 accounts. A total of 195 assets were sold through mega e-auction. 304 borrowers have been declared as wilful defaulters and show cause notices have been served upon another 160 borrowers.

Information Technology (IT)

Bank truly believes on leveraging the information technology for customer centricity. Reliability of the business processes are key to the business capabilities. Bank's IT infrastructure is continuously upgraded to build the capabilities.

Bank has taken number of technology enabled business initiatives to deliver value to the customers. Some of the measures are:

- Upgradation of Bank's core banking platform followed by several technology upgrades and integration with various digital applications which work seamlessly across multiple channels.
- Launch of digital state-of-art supply chain financing solution to meet the requirements of customers. It is a end-to-end seamless and automated processing system having capabilities to generate real time alerts and reports.
- Launch of digital cash management solution viz Baroda DigiNext which helps customers to achieve efficiencies in working capital through digitization of cash management.
- Digitization of account maintenance by launch of Tab-banking. It has been launched for opening of savings accounts across the country. The fully responsive application with best in class user experience has the capability to deliver 35+ banking services at the tip of finger.
- Launch of new digital trade finance platform-BarodaINSTA (Baroda Integrated Solution for Trade Finance Access). It is a comprehensive solution with objective of achieving faster processing and automation in trade finance for the customers and the Bank. It is currently launched for -2- products viz. Import LCs and Import Bills payments and the scope is being extended further.
- Internet Payment Gateway - Bank is in the process of owning the entire Internet Payment Gateway infrastructure, to provide an electronic payment platform Baroda E Gateway to its merchants for e-commerce business by enabling payment collection using credit card/ debit card and net banking.
- Automated Collection System helping the Bank to streamline the debt collection process.
- m-Passbook app which keeps the users updated of all his accounts and allows to monitors balance, deposits, withdrawals, etc.

The Bank is in the process of implementation of number of other applications to enhance the customer experience. Some of the applications are wealth management solution, internet banking upgrade, BBPS, etc. Besides, Bank has implemented/ is in the process of implementation number of support applications including a fraud risk management system and upgrading the AML systems to increase the efficiency and control in operations.

In order to remain abreast with technological changes, the Bank has set-up IT Center of Excellence (ITCoE) to enable it in identify new emerging trends and provide technology differentiation. The ITCoE would provide design thinking skills, process design, architectural skills and core development capacity in current and future technology, helping the business to leverage technology for realizing business outcomes.



Bank is also in the process of establishing Analytics Center of Excellence (ACoE) to facilitate insights of the customer and to add further power to Bank's business transformation journey.

Cyber Security

Over the years, Bank has built a strong foundation of cyber security comprising a comprehensive set of information security measures to counter against cyber-attacks. Bank has well defined cyber security governance framework in place that is operated through a combination of management structure, policy framework and operational controls. Bank has implemented multi layered security architecture to protect IT Assets. A testimony of the security controls implemented by the Bank has resulted into the ISO27001 certification of Bank's Data Centre and Disaster Recovery operations.

In order to detect cyber incidents, Bank has captive Security Operations Center (SOC) which operates on 24X7 basis. During the current year, Bank has further added new capabilities to enhance SOC to cyber ready SOC to identify, manage, respond and resolve cyber security incidents quickly in efficient manner.

Further, Bank has placed the following controls:

- Periodic risk assessment to identify critical assets and evaluate adequacy of controls to protect them.
- Regular vulnerability assessment & penetration testing to identify the vulnerabilities and risks and appropriate mitigation.
- Periodic audits of applications and infrastructure to identify weakness in the existing system and take mitigation steps to rectify deficiencies.
- Phishing sites, rogue mobile apps and social media sites are monitored for malicious activities/contents and the same are taken down on detection through anti-phishing and brand protection services.
- Risk based multi factor authentication implemented to control fraudulent transactions through internet banking channel.
- Critical websites are scanned for detection of any malware present on the site.

During the current year, Bank implemented technology to protect the systems from distributed denial of service (DDoS) and obtained clean pipe to ensure uninterrupted customer services.

Bank participated in the cyber security drills conducted by agencies such as IDRBT, CERT-In, RBI to test our capabilities and further strengthen defence against cyber-attacks. Bank has emergency response team and cyber crisis management plan in place and effectiveness of these plans is periodically tested through drills.

Digital Transformation

Digital transformation and digitization of the traditional banking activities is rapidly changing the banking landscape. It offers convenient and faster banking services. The Bank is continuously investing in digital systems and technologies to ensure a smooth integration between its existing infrastructure and new digital products. The Bank's IT strategy

has supported business initiatives by continuously updating technology and processes to meet evolving business requirements. Our major focus is to make the products suite available to customers through mobile channels such as Mobile banking, Unified payment Interface, BHIM Aadhaar. As more and more of our customers transition to digital modes of payment, Bank seeks to handhold and guide the customers through this journey.

Bank has been at the forefront of innovation through the following initiatives:

Hi-Tech Digital Branches and Digital Portable Branches

Bank has evolved an innovative concept by setting-up of Hi-tech Digital branch equipped with advanced gadgets like Artificial Intelligence Robot named Baroda Brainy and Digital Lab with free Wi-Fi services. The robot guides customers to areas based on their needs and replies to queries raised by customers. In addition, the digital branch has self-service kiosks like cash recycler, account opening kiosk with personalized debit card dispenser, multi-function kiosk, self-service pass book printer along with digital signage system (DSS) which displays the product information. An expert area is also provided to customers where services like specialized investment advisory, financial advisory are provided by the investment specialists. This area is equipped with remote teller (video assistant) to assist the customers in an interactive manner.

Bank opened -2- such hi-tech digital branches during the year at Mumbai and Baroda.

Bank has also implemented concept of "Digital Portable Branch" with an objective to reach out to technically savvy as well as traditional rural consumers through 24X7, self-service, simple and easy to operate banking outlets. Digital Portable Branch is a pre-fabricated branch equipped with account opening kiosk, Cash Dispenser (ATM) and Self Service Passbook Printer (SSPBP) to provide round the clock common retail banking services like account opening, cash withdrawal, passbook up-dation, balance inquiry, fund transfer, bill payment etc. to customers without any manual intervention.

Bank opened -9- such digital branches during the year.

Multi-Function Kiosk

To provide hassle free and convenient banking services through alternate delivery channels to customers by leveraging technology, Bank launched an innovative Self Service kiosk called Multi-Function Kiosk (MFK). It offers a number of customer centric services from a single hybrid services box. Bank has introduced grid based clearing using MFK, started on pilot basis in Mumbai and has seen good results. Grid based clearing has since been extended to Pune, Bhopal, Baroda, and Ahmedabad Zones which completes the entire Western Grid. Total cheques deposited have increased around 11 fold after the launch.



Our Digital Banking team continues to focus on strengthening digital and alternate delivery channels to our customers through the following channels:

- ATMs, which will continue to support the cash needs of our customers.
- E-Lobbies christened as 'Me Lobby' having upgraded facilities, which include Baroda Non-Stop Lobby comprising five self-service machines viz. Cash Recycler, ATM, Multi-Function Kiosk, Passbook Printer and Digital Signage System for providing 24x7 banking services.
- Bank has also introduced "Baroda Express – 24X7" lobby, which is a lean version of the Baroda Non-Stop Lobby for smaller centers by refurbishing the existing ATMs and providing additional services such as Cash Recycler and Passbook Printer
- Internet Banking platform Baroda Connect, which has been enriched with multiple features to provide ease of use and better control for our customers
- **Mobile Banking** - A completely revamped Mobile Banking application M-connect Plus with a 360 Degree view of Customer Accounts, has been launched which provides a robust, secure, scalable and feature rich innovative experience to our customers.
- **Bharat Bill Payment System (BBPS)** - This is an initiative of national importance which offers real time bill payment service to customers/non customers across geographic and demographic lines. BBPS is a tiered platform wherein our Bank participates as Customer Bharat Bill Payment Operating Units (Customer BBPOU) through various channels. BBPS is a simple, secure and easy to use bill payment platform which offers interoperable and accessible bill payment services to customers with instant confirmation of receipt of payment.
- **UPI for retail payment systems** – Bank has launched Baroda MPAY- UPI, which is an initiative of National Payments Corporation of India (NPCI) that aims to simplify and provide a single interface across all existing retail payment systems in India.
- **Global Contact Center** - Bank has also operationalized state-of-the-art Contact Centers at GIFT City as well as at Bengaluru. Our Contact Centre provides most of the banking services through the telephone channel through a Toll Free Number from anywhere in the country and globe. A dedicated Toll free number has been provided for Pradhan Mantri Jan Dhan Yojana (PMJDY) and other Financial Inclusion customers.
- **Unified Mobile Application for New-age Governance (UMANG)**: It is a Government of India all-in-one single unified secure multi-channel, multi-platform, multi-lingual, multi-service freeware mobile application inaugurated by our Honorable Prime Minister Shri Narendra Modi on November 23, 2017. Our Bank is first to provide Bharat BillPay Service on the application. It

is designed to provide digital payments based bill pay services for various utility services.

- **BHIM Aadhaar** : Our Bank is first to implement the BHIM Aadhaar pay cloud based solution, launched by our Honorable Prime Minister Shri Narendra Modi on April 14, 2017. This platform allows a customer to purchase goods and services at the merchant establishment using his/her Aadhaar number linked to his/her Bank account. The merchant can accept the payment. The Government has set a target of 20,00,000 BHIM Aadhaar devices in India. Bank has on-boarded more than 64,000 merchants on BHIM Aadhaar Pay in the FY 2018.
- **NACH e-Mandate**: Bank became live for e-Mandate on March 21, 2018. Its primary objective is to reduce the burden of processing on the destination bank. E-Mandate utilizes the services of NPCI's National Automated Clearing House (NACH) and thus reduces turnaround time in the issuance and confirmation of mandate by customers through alternate channels.
- **Document Management System**: As a step towards paperless banking, digitization of customer records has been undertaken. The records stored in the system can be retrieved by users online. The benefits of the process are improving customer service and reducing TAT for customer queries.

FinTech

The banking industry is undergoing a rapid technological change. Competition from fintech firms is increasing across different business segments. The change is driven by shift in consumer behaviour and spending pattern towards technological driven solutions rather than traditional channels. Bank has been at the forefront of such initiatives by establishing a separate fintech vertical to remain abreast with changes in the banking industry and provide best-in-class products and services to customers. The Bank is looking at not only innovating with respect to opportunities in the fintech area, but also embracing external technological expertise. For this purpose, Bank has tied-up with various fintech service providers in the area of MSME, Corporate, Retail, Payments and E-commerce segments.

The Bank has 20+ partnerships ranging from solutions for MSME clients to partnerships in retail and in payments space. In the MSME segment, the Bank is the first bank to on-board on all three Trade Receivables e-Discounting System (TReDS), an online platform for financing trade receivables of MSME sector. The Bank had a 22% market share on the platform as on March 31, 2018. Apart from this, the Bank is also financing suppliers on E-commerce marketplace. The Bank has also embarked on a partnership with "BankChain" the industry Block chain consortium. The Bank has entered into partnership with National e-Repository Limited (NERL) for financing against warehouse receipts in respect of warehouse registered with NERL. More partnerships are being explored in Ecommerce, Retail and Payments segments so that Bank is present across different fintech platforms.



Back Office Operations

As a strategic step to improve operational efficiency; service delivery and quality, Bank's operating architecture is being revamped through digitization of processes and centralization of back office operations. Bank has set up a state-of-art Shared Services Centre (SSC) at GIFT City incorporated as a wholly owned subsidiary- Baroda Global Shared Services Limited.

Back office functions centralized at SSC include a 24*7 contact center; mortgage based retail loan processing for 6 zones; liability account opening covering 5,063 branches and forex and trade finance transactions (Trade Finance Back Office, TFBO). More geographies and functions are being added gradually to SSC.

A robust governance frame work adhering to standard operating procedures (SOPs) and risk and control self-assessment (RCSA) framework has been set up at SSC to improve efficiency and strengthen internal controls and compliance under one roof. At TFBO in SSC, a quality control unit has also been set up.

Marketing

During the year the Bank rolled out strategic brand building initiatives to create a meaningful and engaging narrative with its existing and prospective customers. The sponsorship of FIFA U17, viewed by more than 47 million persons across the globe backed by BTL activities and TVC on topline channels enhanced visibility for the Bank. Various other marketing initiatives include association with Jaipur Literary Festival, UP Global Summit, Classical Concert Udyeshwar etc. These efforts were reinforced by consistent interaction with customers through the social media campaigns and well researched digital campaigns like #AllInYourInterest.

The year was also important for Bank's foray in the digital marketing space. Taking forward the experience in Bank's Social Media pages, strategies were devised to improve the content in all digital platforms for enhancing search engine marketing and search engine optimization. The content enhancement in these mediums is aimed at engaging audience, especially the Gen Y audience.

The Bank leveraged on its brand endorsers P V Sindhu and K Srikanth by endorsing the core values of the Bank. The creatives were adopted with their imagery for print media, out of home media across metro railway stations, airports, malls etc. The association of Bank with them is in sync with Bank's approach to business – care, concern and competence.

Bank sponsored "Hunnerbaaz – Mission Skill India" on Doordarshan to share positive emotional and inspirational stories and showcase the role played by the Bank in the success and empowerment of its customers. The show covers real life success stories with inspiring celebrity participation and creates awareness about skills and entrepreneurship in India, career opportunities and many other aspects.

The Bank's growth in the social media space aims to cover the netizens and engage them across its social media through innovative content and campaigns. The Bank's social media presence is as follows:

Social Media Channels	Statistics (No of likes / Followers) as on 31.03.2018
Facebook Likes	7,00,309
Twitter Followers	46,764
YouTube Subscribers	9,558
LinkedIn Followers	23,078
Instagram Followers	3,481

Branch Network

As of March 31, 2018, the branch network of the Bank is as under:

	31.03.2017		31.03.2018	
	Number of Branches	% Share in Total	Number of Branches	% Share in Total
Domestic Branches				
Metro	1,166	22	1,167	21
Urban	921	17	930	17
Semi-urban	1,523	28	1,537	28
Rural	1,812	33	1,833	34
Total	5,422	100	5,467	100
Overseas Branches/ Offices (including branches of overseas subsidiaries)	107	-	106	-

During the year Bank opened 55 new domestic branches and closed/merged 10. Of the new branches, two were high-tech digital branches and 9 digital portable branches.

In international operations, Bank opened an offshore International Banking Unit (IBU) in International Financial Service Centre (IFSC), GIFT City, Gandhinagar, Gujarat and closed its representative office in Bangkok, Thailand and one electronic banking service unit in UAE.

Currency Chests

Bank has 98 Currency Chests. Two Currency Chests at Deokali, Faizabad and Burdwan, West Bengal were opened during the year. These are used for effective cash management in the Bank besides vaulting cash on behalf of Reserve Bank of India. All the currency chests as well as branches are provided Note Sorting Machines (NSMs). These currency chests have helped the Bank in efficient management of cash at branches.

Corporate Social Responsibility (CSR)

Bank has a long legacy and tradition of contributing actively to the social and economic development of the communities through various developmental activities. Bank as a responsible corporate citizen always strives to contribute to

the welfare of the society particularly the up-liftment of the underprivileged sections of the society to make sustainable social changes in their lives. Skill development through training for gainful employment, human welfare and other social activities for women and farmers continue to remain Bank's key focus areas. Bank sanctioned a sum of ₹ 1191 lakhs to different organizations engaged in various community development and socio-economic welfare activities for the benefit of weaker section, rural population and others.

Bank has established 49 Baroda Swarojgar Vikas Sansthan (BSVS), Bank's R-SETI centers in seven states of the country, out of which 45 are in our lead districts and 4 are in non-lead districts. These centers impart skill development training programmes to youth from rural & semi-urban areas for generating self-employment. Till date these centers have conducted 11,258 training programmes and imparted training to 3,29,452 youth, out of which 2,17,759 have already secured either employment or setup their own venture. The settlement ratio is at 66.09%. Our 44 BSVS centers have been graded as "AA/A" (outstanding) based on the overall performance/functioning of the RSETIs, during FY 2017. We have 19 Baroda R-SETIs operating from own building.

Bank has set up 51 Financial Literacy & Credit Counseling Centers (FLCCs) in eight states which provide financial counseling services and education to the people in rural and urban areas about various financial products and services available from the formal financial sector. These centers also take up activities that promote financial literacy, awareness about banking services, digital banking, financial planning and amelioration of debt-related distress of an individual.

Risk governance and Internal Controls

The increased focus on risk and the supporting governance framework includes identifying the responsibilities of different parts of the Bank for addressing and managing risk. Often referred to as the "three lines of defence", each of the three lines has an important role to play. These are:

- i. First line of defence – all the employees are required to own and ensure the effective management of risk and compliance with regulations, Bank's policies & guidelines.
- ii. Second line of defence – this comprises the risk control owners and include risk management function responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis independently from the first line of defence. The compliance function is also deemed part of the second line of defence.
- iii. Third line of defence - an independent assurance provided by the internal audit function conducting internal risk-based and other audits. Its reviews provide assurance to the Board that the overall governance framework, including the risk governance framework, is effective and that policies and processes are in place and consistently applied. The role of audit function is defined and overseen by Audit Committee of the Board.

Controls in Business

Each employee of the Bank is the owner of the risk underlying in his area of operation and ensuring its effective management. For strengthening the internal controls and improving compliance culture across the organization, Bank continued the realignment of structure to sharpen the controls and compliance following the principle of (i) segregation of business and control functions and (ii) segregation of front office and back office functions by centralization of operations and processes which could be taken out of branches to increase efficiency and strengthen controls while enhancing customer experience.

The Bank made significant progress on both the areas. The centralization of processes and operations at Shared Service Center (SSC) at GIFT City, Gandhinagar, Gujarat continued with number of branch activities migrated at SSC where a robust governance frame work adhering to standard operating procedures (SOPs) and risk and control self-assessment (RCSA) framework has been set up. At Trade Finance Back Office in SSC, a quality control unit has also been set up. Besides, Bank has a Transaction Monitoring Unit (TMU) for independent monitoring of exceptional transactions and monitoring and closure of alerts thrown out of AML system.

Risk Management and Compliance

Risk Management

Risk is an integral part of the banking business and the Bank aims at achieving an appropriate trade-off between risk and returns. To ensure sustainable and consistent growth, Bank has developed a sound risk management framework so that the risks assumed by the Bank are properly assessed and monitored. Bank undertakes business activities within the risk appetite limits and policies approved by the Board of Directors of the Bank. Specific committees of the Board have been constituted to facilitate focused oversight on various risks. The Board has also constituted a Risk Management Committee of Board which oversees the inter linkages between different type of risks. It is supported by onboarding of specialists in the area. Policies approved from time to time by the Board of Directors or committees of the Board form the governing framework for each type of risk.

During the year, Bank has undertaken implementation of Enterprise wide Risk Management project for measuring and monitoring the risks of the Bank. The Bank has comprehensive Internal Capital Adequacy Assessment Process and stress test policy. The Pillar 2 risks such as Liquidity Risk, Interest Rate Risk, Concentration Risk as well as adequacy of Capital under both normal and stressed conditions are assessed as per the policies.

A brief outline of the mechanism for identifying, evaluating and managing various risks within the Bank is as follows.

Credit Risk

Credit Risk is managed in the Bank through a Board approved framework that sets out policies, procedures and reporting which is in-line with international best practices. Adequate attention is given to the independence of the risk evaluators and business functions for addressing sound credit process



culture. Bank has a well-structured credit approval process, which functions within the defined Board approved credit policy.

Over the years Bank has gained good experience in internal ratings. This robust platform enabled the Bank to get an approval of regulator for parallel run for Foundation Internal Rating Based (FIRB) approach of credit risk under Basel II guidelines from March 31, 2013. Under the IRB approach the banks are allowed to develop their own empirical model to quantify required capital for credit risk. IRB implementation has helped the Bank with improved risk management systems and strong risk assessment processes.

Credit risk measurement models are validated by independent model validators for their discriminatory power, accuracy and stability. Corporate credit rating models have been updated during the year to enhance their predictive power of default.

To manage credit concentration risk, Bank has put in place prudential caps across industries, sectors and borrowers. The portfolio review cell carries out detailed studies on sectoral exposure, credit concentration, rating distribution and migration, which is used as a strategic input to decide on the credit risk strategy and to identify target markets of the Bank.

Bank has also implemented the Risk Adjusted Return on Capital (RARoC) framework for corporate credit exposures. It facilitates in evaluating credit risk exposures from the point of 'economic value addition' to the shareholders.

Market Risk

Bank measures and monitors interest rate risk in its trading book through duration, modified duration, PV01 and Value at Risk (VaR) on daily basis. The foreign exchange risk is measured and monitored in terms of net overnight open position limits (NOOPL), VaR limits, Aggregate Gap Limits (AGL), Individual Gap Limits (IGL) on daily basis. At transaction level, stop loss limits and dealer-wise limits have been prescribed and implemented. Equity price risk is measured and monitored through VaR limits and portfolio size limits etc. At transaction level, stop loss limits and dealer-wise limits are put in place to mitigate equity price risk.

Under its stress testing framework, Bank conducts comprehensive stress tests of its trading book portfolio on quarterly basis.

Asset Liability Management

Liquidity Risk is the inability to meet expected and unexpected cash and collateral obligation at reasonable cost. In our Bank, the liquidity risk is measured and monitored through Flow Approach and Stock Approach and other prudential stipulations as per the latest guidelines of the Reserve Bank of India. Bank has implemented Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards. The LCR standard aims to ensure that banks maintain an adequate level of unencumbered High Quality Liquid Assets that can be converted into cash to meet liquidity needs for a 30 calendar

day time horizon under a significantly severe liquidity stress scenario. Bank has always been well above the stipulated level of LCR on solo basis as well as on consolidated basis. Bank discloses simple average of daily LCR for the respective quarter as part of Notes to Accounts on its website.

Interest Rate Risk in the banking book (IRRBB) arises due to mismatch between rate sensitive assets and liabilities which adversely impact the earnings of the Bank with the change in rate of interest in the market. For measurement and monitoring of Interest rate risk in banking book, Bank uses risk management tools such as Traditional Gap Analysis, Earning at Risk and Modified Duration of Equity. The short-term impact of interest rate movements on Net Interest Income [NII] is worked out through "Earnings at Risk" approach taking into consideration parallel shift in yield curve, yield curve risk, basis risk and embedded options risk. The long-term impact of interest rate movements is measured and monitored through change in Market Value of Equity (MVE).

Operational Risk

The Bank has implemented a web-based Operational Risk Management system SAS Enterprise Governance, Risk and Compliance (EGRC) for systemic, holistic and integrated management of Operational Risk. To mitigate and control operational risk at transaction level, Bank has established a Centralised Transaction Monitoring Unit for monitoring of all domestic transactions from KYC/ AML/ CFT angle. Bank has undertaken segregation of customer interface (front office) with the execution of transaction (back office) by centralizing number of back office functions. Centralized Trade Finance Back Office (TFBO) for forex transactions has been set up to minimize operational risk in forex transactions. Bank continues to create a strong risk awareness by imparting trainings to the employees at all levels and by organizing various locational workshops.

Roll out of Key Risk Indicators Programme (KRI), Risk Control and Self-Assessment Programme (RCSA) and root-cause analysis has further strengthened the control environment.

For improved fraud risk management, Bank is in the process of implementing a Enterprise Fraud Risk Monitoring Solution (EFRMS).

Basel III Implementation

The Basel III capital regulations have been implemented by Indian banks with effect from April 1, 2013. This implementation requires enhanced quality and quantity of capital on one side and enhanced disclosures on the other. For augmenting and improving core capital of the Bank, new measures for the inclusion of FCTR, DTA and Revaluation Reserves were introduced by RBI in March 2016. Bank has started maintaining Capital Conservation Buffer (CCB) also from March 2016 onwards and will reach minimum prescribed level of 2.5% by FY 2019.

The Bank maintains the regulatory mandated liquidity coverage ratio (LCR) as per the transitional arrangements prescribed by RBI.



Compliance

The compliance function is responsible for ensuring that the Bank operates with integrity and in compliance with applicable laws, regulations and internal policies. The Board of Directors oversee the management of Bank's compliance risk.

Bank has put in place a Board approved compliance policy outlining the compliance philosophy of the Bank. Compliance function in the Bank is an integral part of governance along with internal control and compliance risk management process. The compliance function advises senior management and the Board on the Bank's compliance with applicable laws, rules and standards globally and keeps them informed of developments in the area. It also educates employees about compliance issues by conducting periodic trainings and workshops for business staff and designated compliance officers. Knowledge management tools for this purpose have also been uploaded on the Bank's site.

During the year, Bank implemented a web based compliance management solution for certification and monitoring of various regulatory, statutory and internal guidelines at each level in the Bank for further strengthening the compliance function.

KYC/ AML Compliance

Bank has well defined KYC-AML-CFT Policy, which is the foundation on which the Bank's implementation of KYC norms, AML standards, CFT measures and obligation of the Bank under Prevention of Money Laundering Act (PMLA) 2002 is based. Bank electronically generates Cash Transaction Reports (CTRs) for submission to Financial Intelligence Unit-India (FIU-IND). AML Solution for generating system-based alerts on the basis of transactions in the accounts of the customers is in place. A central transaction monitoring unit (CTMU) also monitors transactions/alerts generated in AML Solution and escalation of STRs. System-based risk categorization of customers' accounts is done on half yearly basis. Bank files Counterfeit Currency Reports (CCRs) and Non Profit Organizations Transaction Reports (NTRs) to FIU-IND, New Delhi every month. It generates cross border wire transfer (EFT) reports every month in electronic mode for submission to FIU-IND, New Delhi.

Bank has implemented Aadhaar based e-KYC in collaboration with UIDAI. Real-time verification with names of individuals/entities appearing in the sanctions/ UNSCR list or any other blacklist issued by Govt. authorities, while opening of accounts has been put in place. The Bank is in the process of allotting Unique Customer Identification Code (UCIC) to all its existing customers as per the RBI guidelines. The guidelines in respect of beneficial owner are scrupulously followed. Regular trainings and workshops are organized on UCIC and KYC/ AML/CFT compliance for the employees.

Internal Audit

Bank carries internal audit function through a Central Internal Audit Division (CIAD). CIAD administers various streams of audits besides Risk Based Internal Audit (RBIA) of branches and offices. Audit Committee of the Board oversees overall

internal audit function and guides in developing effective internal audit, concurrent audit, IS Audit and all other audit functions of the Bank. The committee monitors the functioning of the Audit Committee of Executives and internal audit department in the Bank.

CIAD operates through thirteen Zonal Internal Audit Divisions to carry out internal audit of branches/offices as per the periodicity decided by the Risk Based Internal Audit Policy. All branches of the Bank are covered under Risk Based Internal Audit. Out of 4,827 branches audited during FY 2018, 3,873 branches (80.24%) were in Low Risk, 905 branches (18.75 %) were in Medium Risk, 46 branches (0.95 %) were in High Risk and 03 branches (0.06 %) were in Very High Risk category.

Bank engaged an independent firm as a knowledge partner for comprehensive review of the Audit function in line with the processes focusing on centralization of activities by use of technology, imaging solutions and digitization and the same is in progress. The whole gamut of audit approach will undergo a change with extensive use of technology, analytics, sampling and advanced audit methodology. Internal audit processes thus are being revamped aided by technology.

For streamlining the concurrent audit function, with the objective of improving oversight and consistency in approach, Bank has revamped its concurrent audit system whereby a single firm is appointed to conduct concurrent audit of all branches in a Zone. It brings in the benefits of uniformity of approach and of unified view on control & compliances, observations of irregularities and patterns if any. Further, in view of advancement in technology and growing transactional data, Bank has undertaken transformation of audit process supplementing on-site audit process with off-site one for timely preventive actions and improved internal controls.

Customer Service

Bank is focused towards providing an excellent customer experience. It has been our constant endeavour to set industry benchmarks and pioneer advancements/innovations in products, processes and service delivery that is imperative to provide seamless experience to our customers. We have been actively engaged in understanding and identifying gaps between customer needs and expectations through the Voice of the customers (annual surveys and real-time ongoing bottoms-up surveys), embedding CX goals in the Organisation's goals, building "Client First Culture", redesigning experiences (product design, systems and processes) to deliver wow experiences for enhanced customer satisfaction and loyalty.

Some of the initiatives undertaken in this direction are as follows:

- Voice of our customers: Customer feedback provides us an opportunity to improve our services, understand and identify gaps between customer needs and their expectations. We conduct an annual survey and a monthly bottoms-up surveys to measure customer satisfaction and ease of banking with us. Presently, a monthly customer satisfaction survey is being conducted across all access channels by 2 leading



market research agencies on behalf of the bank. The Bank tops the list across public sector banks across all access channels.

- Customer Experience goals have been embedded in the organisation's goals and scorecards with CX goals has been completed for more than 60% of the Bank (top management and branches).
- Governance: Dashboards/customer centric metrics for key customer impacting processes – top 5 processes have been completed.
- Organising for success : Bank has been constantly trying to reorganise by bringing together departments which require the similar skill sets and expertise under one umbrella, for FTE and cost optimisation (e.g. bringing digital operations under Operations at BGSS)
- Mystery Shoppings/service audits to assess the service levels of the primary access channel, i.e. our branches, are being held on a regular basis. These audits cover every aspect of customer - branch ambience to wait time, priority for senior citizens and specially abled people, BCSBI Code compliance, awareness of processes and policies and more. A 20% coverage of the branches (selected randomly) in each Zone is the target. A task force comprising of officials from Customer Experience, Customer Service, Regional & Zonal Compliance and Regional training Centre teams has been formed to ensure regular feedback and trainings are provided to the branches basis the identified gaps.
- Grievance Redressal - End to end revamp of the entire grievance machinery has been done. In Phase I - Bank's Online Grievance Redressal Portal SPGRS has been made a single repository of complaints. SPGRS has been integrated with DCRS (portal used for handling debit card related complaints) to have an improved mechanism for internal control, grievance monitoring, redressal, MIS & regulatory reporting. Various enhancements have also been made to make the system more robust and user friendly (like back up/DR & server upgrade, self-explanatory complaint category codes, options to consult, refer, attach and re-open complaints, auto-escalations, prioritization, option to capture customer feedback on resolution, auto acknowledgements, interims and close looping SMS are some of the options). Customers will also be able to provide their feedback on resolution through an SMS "Happy/Unhappy" (the development is underway). The improved monitoring & tracking has already helped in ensuring that than 75% of the complaints are now being resolved within 7 days.
- Process reengineering: KYC and Account opening form, dispatch and delivery of welcome kit with cheque book, debit card along with welcome letter have been streamlined.
- Customer segmentation for differential services- Baroda Radiance has been launched in 2 cities and RMs have been on boarded.

- To embed the culture of "Client first " in all our interactions, the core values - Integrity, Courage, Customer Centricity, Passionate Ownership, Innovation and Excellence, have been put in place . Our next step is to ensure that Bank as a whole adopts these values to ensure "Client First " in all our day to day interactions with customers, and to ensure any change- be it systems/ processes – is done keeping customers' interest at the core of all our actions.
- Contact Centre enhancements are underway to provide the best in class services through contact centre to our customers. The service level of contact centre has improved from 42.94% in August, 2017 to 93.39% in April,2018 and lost calls are now less than 2%.
- The 24X7 Contact Centre is available in -6- regional languages which handles customer queries, complaints and emergency services such as card blocking and reissuance. It also handles calls from two overseas locations – Mauritius and Botswana. Call Centre also has a dedicated outbound sales unit handling auto loans, personal loans and insurance. A dedicated HNI number and team is available for Baroda Radiance customers. Initiatives currently underway include video chat and web chat.

A sub-committee of Board on customer service oversees the issues relating to the formulation of policies on customer service and experience and its compliance. Bank has also set up a Standing Committee on Procedures and Performance Audit on Customer Services which includes two eminent public personalities, Executive Directors and senior officials of the Bank. This Committee oversees timely and effective compliance of the RBI instructions on customer service and also reviews the practices and procedures prevalent in Bank and takes necessary corrective steps on an ongoing basis. At branch level, Branch Customer Service Committee is in place.

Bank is also a member of the Banking Codes and Standards Board of India (BCSBI) and has adopted the "Code of Commitment to the Customers" and the "Code of Bank's Commitment to MICRO and Small Enterprises". During the last rating exercise, Bank has been rated "Above Average" in overall score by BCSBI.

Vigilance

Vigilance function in the Bank aims at proactively supporting bonafide decisions and simultaneously acting as a deterrent for ensuring that no wrongdoing takes place. The thrust remains on identifying leakages within the organization that may lead to financial losses, taking corrective and preventive action to plug them.

Bank gives importance to preventive vigilance to inculcate awareness on the compliance to internal systems and processes. To encourage employee confidence and enhanced awareness, various initiatives on preventive vigilance are taken by the Vigilance department. Preventive vigilance audits of sensitive branches identified on the basis of risk perception, are undertaken. Employees are sensitized



on preventive vigilance aspect, as to consequences of flouting rules and regulations which may lead to perpetration of frauds by unscrupulous elements, through Vigilance newsletter, circulars, meetings etc.

The number of staff accountability cases has been brought down by ensuring speedy disposal of vigilance matters. Other initiatives include implementation of bio-metric authentication in CBS, online submission of property returns by officers and placing immoveable property return of executives on Bank's website. An exclusive portal BoB e-vigil, incorporating online vigilance clearance, disciplinary proceedings status, complaint management system etc. is being made operational which aims to make the transparency, supervisory and MIS function more effective.

The Vigilance machinery performs its role as decision facilitators, rather than decision deterrent, by strengthening the systems and procedures, plugging loopholes and erasing grey areas. It is imparting participative, proactive and preventive mechanisms to meet the desired impact.

During the year, online whistleblower complaint system has been made operative in addition to the traditional paper based system for raising concerns at the right time under whistleblower guidelines to avoid undue delay and restricting the potential damage.

Human Resources

Bank believes that our human resources are the biggest differentiator having a direct and significant impact on Bank's overall performance. Bank has a rich reservoir of human resources comprising over 55,000+ employees. Bank's HR has undertaken a number of initiatives viz. recruitment and onboarding of talent in the wake of a large number of superannuations, strengthening performance management system through Project SparshPlus, addressing training needs, leadership development needs across the Bank through a comprehensive leadership development program – "WeLead", succession planning and increased levels of employee engagement.

During Bank's first employee engagement survey "Voice of Barodians", several positives that emerged were taken into account for variety of action plans. These include capability building initiatives to take on higher order challenges in the Bank's transformation journey. Bank's intent is to ensure that the employee experience across all levels is further enhanced so as to create a fun and happy place to work in. Towards this end, the Bank launched a series of initiatives for the employees.

Bank has undertaken a similar survey this year also to gauge the feedback on implementation on first survey.

'Baroda Anubhuti' Programme

This is an employee engagement programme. Various initiatives have been undertaken to enhance the overall employee engagement like 'Employee of the month', spot recognition – capturing 'WoW' moments, Fun hour at all branches/offices, local community service/social activities by employees and various sports, cultural and wellness activities.

As a part of the programme, once in six months, mandatory community service programme is carried through all branches/offices of the Bank. It helps build a social connect of employees with the local community besides inculcating a spirit of service and care while Bank undertaking its responsibility as good corporate citizen.

During the year, on the occasion of Bank's Foundation Day and on Republic Day, Bank undertook the following community service activities:

- Blood Donation – more than 10,000 units of blood
- Tree Plantations drive – around 35,000 saplings planted
- Cleanliness drive – more than 2,100 drives in various localities
- Distribution of materials, miscellaneous items to the poor and needy – more than 81,000 items
- Distribution of materials, misc. items to orphanages / old age homes – more than 55,000 items
- Conducting Health Check Up Camps – more than 8,200 people were covered.

'WeLead' - a comprehensive Leadership Development Programme

Bank introduced a comprehensive leadership development initiative called 'WeLead' with the objective of building a robust and sustainable pipeline of leaders for future. This is through -4- distinctive programmes:

- Baroda Senior Leadership Programme – for Officers in Scales VI & VII
- Baroda Emerging Leaders Programme – for Officers in Scales V
- Baroda Rising Stars Programme – for Officers in Scales IV
- Sayaji Rao Gaekwad Scholars Programme – for Officers in Scales I, II & III

Under the 4 programmes, Bank has identified over 2,700 potential leaders to take over the leadership positions in future. Bank has plans to extend the coverage of this programme.

Baroda GEMS (Growth and Empowerment Management System)

Under Project "SparshPlus" Bank has introduced a new Performance Management System (PMS) for employees, christened as Baroda GEMS (Growth & Empowerment Management System). The approach of the entire PMS system is to shift the focus from an evaluative mechanism to a development and growth oriented mechanism of employee performance.

Baroda GEMS is a digital platform and provides periodical updates to each officer on his/her performance. It provides performance analysis and feedback through performance scorecards and minimizes subjectivity in assessment process. It enables differentiation of performers through comparison in similar cohorts, provides officers with control on their output/



results, brings in more transparency and thereby enables a performance driven culture in the Bank.

Learning and Development

To provide alternate learning channels and build learning environment, Bank undertook various initiatives like roll out a multi-function, one stop Baroda Academy Mobile application, Baroda Radio and such other interventions which cater to the requirement of learning. The Bank has put in place a 'life cycle concept of training' to provide training in a focused and phased manner aligned to the job role performed and to the requirements at various stages of employee's career. The e-learning platform of Baroda Net Academy hosts more than 230 modules and more than 7 lakh courses were completed by employees during FY 2018.

Wellness and fitness drives

The Bank formed Sports & Cultural Clubs for employees in Zonal and Regional office centres across the country to promote sports and cultural activities and to inculcate wellness and fitness awareness amongst the employees. Bank conducted Inter Zonal Tournaments in 6 disciplines last year in different parts of the country which saw active participation by teams from all Zones.

The Bank also started a concept of "Annual Sports Day" of the Bank. First of such event was held on November 25, 2017. Sports activities were organized for the entire day simultaneously across all zonal and regional centres. The event saw active engagement by the families of the employees also.

Recruitment

The Bank is focused on developing processes to attract the best talent. During the year, Bank revamped the selection process for admission to the Baroda Manipal School of Banking. The course contents have also been re-casted and tailor-made to develop required banking skills in the emerging environment.

To augment the skill sets and address the manpower requirements arising in the Bank, 6,257 employees were on-boarded in various cadres through lateral, contractual and other recruitment channels taking the total employee strength to 55,662 as on March 31, 2018.

Thrust on Diversity

Bank follows a non-discriminatory and equal opportunity policies for all its employees. Bank is transparent in all issues relating to promotion, career path, transfer policy and employee benefit/welfare schemes.

In order to create a more diverse workplace, Bank has been progressively increasing its recruitment of women employees. The percentage of women in the overall staff composition has increased to 23% in FY 2018 from 22.70% in FY 2017 and 22% in FY 2016. The gender diversity ratio (ratio of men to women employees) in the Bank now stands at 3:1.

In order to retain women employees at all levels and in recognition of the concomitant responsibilities of women, Bank has put in place various facilities to support women

employees such as sabbatical leave, health check-up program for women employees and other initiatives.

Bank's Core Values

During the year, Bank's core values aligned to leadership competencies were unveiled. These were formulated based on feed-back received from employees across the globe and are the guiding principles based on which we operate. Six core values of the Bank are:

- **Integrity** – We are ethical and transparent in our words, actions and dealings with all stakeholders.
- **Customer Centricity** – Our customers' interests lie at the core of all our actions.
- **Courage** – We are resilient in the face of adversity and having faith in our beliefs.
- **Passionate Ownership** – We display energy, enthusiasm and commitment towards our Bank and we work together for the Bank.
- **Innovation** – We create value with break-through ideas.
- **Excellence** – We strive for continuous improvement in our policies, systems and processes.

Bank has taken necessary steps for institutionalising these core values across the organisation.

Implementation of Official Language (OL) Policy

During FY 2018, Bank made exemplary progress in implementing the Official Language Policy of Government of India. Besides compliance of various statutory requirements under Official Language Policy of the Union Government and directives issued by Reserve Bank of India, our Bank promoted Hindi as a tool for business development and establishing connect with the customers.

During the year, Bank was awarded First Prize by Government of India, Ministry of Home Affairs, Department of Official Language under linguistic Region 'B'. Similarly, our Zonal Office, Jaipur, Regional Office, Varanasi and Head Office, Baroda were also awarded with prizes in the related linguistic regions. President of India his Excellency Shri Ramnath Kovind distributed the prizes on Hindi Day 2017.

Jaipur, Varanasi, New Delhi, Goa, Guwahati, Lucknow, Manjhanpur (UP) and Patna offices of our Bank also received awards from Govt. of India through its Regional Implementation Offices for their outstanding work. Bank continued with its unique scheme "Medhavi Vidyarthi Samman Yojana" for popularising Hindi in 64 universities of the country.

Domestic Subsidiaries and Joint Ventures

BOB Financial Solutions Ltd. (BFSL) (erstwhile Bobcards Ltd):

The name of this subsidiary was changed to reflect its new business role. Gradually widening the scope based on the expertise acquired in the payment card industry over a period of time and envisaging growth opportunities for cards and digital payments in India, BFSL is gearing up to be an



important player in consumer credit and payment system in the evolving market landscape. The company is in process of introducing new business lines besides revamping the existing business. It aims to be a consumer finance company for credit card and personal loans business. During the year, various initiatives were taken by the company for its growth. It launched New 5x range of cards, EMI on transaction, online application processing & underwriting. Dedicated Call Centre to attend POS related complaints were set up. Pursuant to strong position to aggressively chase business growth, BFSL is completing technology and infrastructure upgrades, build the manpower backbone of the organization and reach a scalable and cost effective outsourcing operations model, delivering optimal customer experience and stable internal processes.

BOB Capital Markets Limited (BOBCAPS)

BOBCAPS after refreshed branding realigned its business and focused on three lines of businesses viz. (a) Investment Banking – Debt & Equity (b) Institutional Broking and (c) Wealth Management and Online Retail Broking. It is also licensed to undertake portfolio management services (PMS). During the year, the company strengthened its teams in all business and support verticals as also its branding and infrastructure to be able to leverage strengths of the parent and establish itself as an important player in the businesses. The Company acted as Book Running Lead Manager (BRLM) in three QIP issuances and has a good pipeline of transactions in debt, equity and M&A investment banking. In broking, the company's enhanced products and services are resulting in rise in institutional and retail clients and business.

The Nainital Bank Limited

The Nainital Bank Limited (NBL), promoted by Late Bharat Ratna Pandit Govind Ballabh Pant and others became an Associate Bank of Bank of Baroda in the year 1973. Bank's holding in Nainital Bank Ltd. is 98.57%. Total Business of NBL which was ₹ 10,132.7 crore as on March 31, 2017 increased to ₹ 10,772.1 crore as on March 31, 2018. Gross NPA of the Bank remained almost flat at ₹ 167.5 crore as on March 31, 2018 from a level of ₹ 164.3 crore as on March 31, 2017. The net profit of the Bank was ₹ 48.9 crore in FY 2018 against profit of ₹ 48.5 crore during previous year. Bank opened 3 new branches and established 5 Loan processing units named as Naini Loan Points (NLPs) at different locations. Bank installed 11 white label ATMs taking the total to 24 such ATMs and installed 772 POS machines. During the year NBL was awarded as "Best MSME Bank (Private Sector)" by ASSOCHAM.

Baroda Global Shared Services Ltd. (BGSS)

Established during FY 2017, BGSS commenced its operations during the year. The subsidiary is providing services by helping Bank to digitize the processes and centralize its back office operations at the state-of-the-art Shared Services Centre (SSC) at GIFT City, Gandhinagar, Gujarat.

Currently it has more than 600 FTEs in non-voice (transaction processing) and ~ 750 FTEs in voice (call centre) which are being scaled up. Significant progress has been achieved on

centralization of trade finance and forex operations, account opening (liabilities) and retail loan processing. The goal is to map complete foot print of branches (5400+) in line with centralized hub by which 24*7 customer service can be provided to clients

A robust governance frame work adhering to standard operating procedures (SOPs) and risk and control self-assessment (RCSA) framework has been set up at SSC to improve efficiency and strengthen internal controls and compliance under one roof. At TFBO in SSC, a quality control unit has also been set up.

Barodasun Technologies Ltd.

During the year, Bank setup a wholly owned IT subsidiary. Bank is in the process of setting up an IT Centre of Excellence (ITCoE) to identify new emerging trends and provide technology differentiation. The ITCoE would provide design thinking skills, process design, architectural skills and core development capacity in current and future technology, helping the business to leverage technology for realizing business outcomes.

IndiaFirst Life Insurance Company Ltd.

IndiaFirst Life Insurance Company Ltd., a joint venture with Andhra Bank and Legal & General group. It commenced business operations on November 16, 2009. It is the fastest life insurance company to break even in the 5th year of operations. Its current industry ranking in Individual New Business (APE) is 14th among the private players with Assets under Management (AUM) at ₹ 12,622 crore as on March 31, 2018.

The company was conferred with the "Bancassurance Leader of the Year" award in the large company category at the National Awards 2017 for Excellence in insurance for successfully implementing the Bancassurance model.

In line with its global strategy, Legal & General has plans to divest its stake in the joint venture. The process for the same is underway.

India Infradebt Limited (Infradebt)

Infradebt is the first Infrastructure Debt Fund (IDF)-NBFC and is sponsored by Bank of Baroda, ICICI Bank, Citicorp Finance (India) Limited and LIC of India as the shareholders. The principle activity of the company is to re-finance the infrastructure projects which have achieved completion as well as one year of commercial operations. The synergy with the Bank arises from its focus on lending to infrastructure projects including to road and renewable energy sectors. Infradebt is rated AAA by CRISIL and ICRA and enjoys 100% Income-tax exemption. The company has delivered healthy growth in last full four years of operations. Its loan book as on March 31, 2018 was ₹ 7,718.6 crore and net profit for FY 2018 was ₹ 132.5 crore.

Baroda Pioneer Asset Management Company Limited

It is a Joint Venture of the Bank with Pioneer Global Asset Management SpA and is in its eighth year of operation. The



Average Assets under Management (AUM) of the venture were ₹ 11,502 crore as on March 31, 2018, registering an annual growth of 10%. Growth in its long term assets was higher than the overall growth. The company continued its focus on building retail assets. It also undertakes third party distribution and saw good success with the Independent management company.

Financial Advisor (IFA) channel during the year.

During the year, Bank entered into an agreement with UniCredit S.P.A.(the parent company of Pioneer Global Asset Management SpA) to buy its 51% stake in the company, subject to regulatory approvals. Post completion of the transaction, the Bank will own 100% of the asset

A brief synopsis of domestic subsidiaries, associates and Joint Ventures is as below:

(₹ in lakh)

Entity (with date of registration)	Owned Funds	Total Assets	Net Profit	Offices	Staff
BOB Capital Markets Ltd. (11.03.1996)	15,670	16,133	(226)	1	109
BOBCARDS Ltd. (29.09.1994)	23,409	39,874	1,541	40	151
Baroda Pioneer Asset Management Co. Ltd. (05.11.1992)	5,926	7,207	317	3	74
Baroda Pioneer Trustee Company Pvt Ltd. (23.12.2011)	9	15	1	1	0
IndiaFirst Life Insurance Co. Ltd. (05.11.2009)	60,215	13,09,838	5,121	29	1,533
The Nainital Bank Ltd. (31.07.1992)	60,179	8,114	4,889	147	967
India Infradebt Ltd. (31.10.2012)	93,060	8,31,669	13,248	1	21
BOB Shared Services Ltd.(15.03.2017)	1,054	1,084	58	2	158

Awards and Accolades

During FY 2018, Bank won the following awards and accolades:

Date	Awards
28.02.2018	Bank was awarded "Makers of Excellence Award" under APY by Pension Fund Regulatory and Development Authority (PFRDA), Govt. of India.
03.02.2018	Finnoviti 2018 Award for Financial Inclusion by Banking Frontiers
17.02.2018	Winner Award in "Agricultural Banking" in the Large Bank category by ASSOCHAM in Annual banking cum Social Banking Excellence Award of 2017.
17.01.2018	Ranked as among top 50 companies in India on People Capital Index(PCI) by Jombay in partnership with Naukri.com and British Standards Institute (BSI)
22.12.2017	Bank won -4- Awards at the 57th Association of Business Communicators of India (ABCI) Awards in categories viz. Wallpaper, Web Communication, Features (Language), Table Calendar 2017
22.11.2017	Mr. P S Jayakumar, MD&CEO of the Bank was conferred with "Business Innovator Award -2017" by Asian Business Leadership Forum (ABLF).
13.10.2017	Bank won following Six awards on APY (Atal Pension Yojna) from Pension Fund Regulatory and Development Authority (PFRDA), Govt. of India. <ul style="list-style-type: none"> • 1st - Top Performing Bank in sourcing APY accounts FY 2017 • 2nd - Best Performing Bank in sourcing of APY accounts FY 2017 • 1st - APY Transformative Leader Award • 1st - APY SLBC Leader (UP) • 1st - APY Formation Day Winner • 1st - APY Brand Ambassador



<p>14.09.2017</p>	<p>Bank bagged -5- prizes in Official Language implementation as under:</p> <ul style="list-style-type: none"> • First Prize among all the nationalized banks under Rajbhasha Kirti Award Scheme of GOI for the year 2016-2017 for outstanding achievement in implementation of Official Language Policy. • First and Second Prizes in Linguistic Region 'A' - TOLIC • Second Prize in Linguistic Region 'B' - TOLIC • Rajbhasha Gaurav Puraskar Scheme
<p>26.04.2017</p>	<p>Silver Award for Best Social Media Brands under Bank category for 2017 by Social Samosa an Indian knowledge repository website on Social Media.</p>

Dividend Distribution Policy

As required under Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements), 2015, Bank has dividend distribution policy in place which sets out the parameters and circumstances that will be taken into account by Board in determining distribution of dividend to its shareholders. The policy is given in this Annual Report and is also available on the Bank's website at www.bankofbaroda.com/download/Dividend.pdf

Board of Directors (Appointment /Cessation of Directors during the year)

Appointments

Shri Lok Ranjan was nominated as Director w.e.f. August 26, 2017 by The Central Government u/s 9 (3) (b) of The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 to hold the post until further orders.

Smt. Soundara Kumar was elected as Shareholder Director under section 9 (3)(i) of The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, for a period of 3 years from December 24, 2017 to December 23, 2020.

Shri Bharatkumar D Dangar was elected as Shareholder Director under section 9 (3)(i) of The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, for a second term of 3 years from December 24,2017 to December 23,2020.

Cessations

Shri Mohammad Mustafa Director, ceased to be a Government Nominee Director w.e.f. August 26, 2017 on the appointment of Shri Lok Ranjan in his place.

Shri Prem Kumar Makkar Director, ceased to be a Non Workmen Director w.e.f. September 19, 2017 on completion of the tenure of -3- years.

Dr. R. Narayanaswamy Director, ceased to be a Shareholders Director w.e.f. December 24, 2017 on completion of the tenure of -3- years.

Board Evaluation

In FY 2017, the Bank engaged a reputed external consulting firm to conduct an independent evaluation of the Board, its committees and individual directors. In FY 2018, this evaluation was followed up by an independently administered questionnaire by the same consulting firm. The questionnaire was completed by all the directors. The questionnaire

included a range of topics to evaluate the performance of the Board. These includes:-

- Composition & Effectiveness
- Governance
- Relations with Management Committees
- Continuous Improvement

The responses received from the Board members were compiled and a report was submitted by the consulting firm to all Directors on the Board. The Directors discussed the Report and agreed on a set of actions to drive further improvement in Board effectiveness.

Auditors' Compliance Certificate on Corporate Governance:

The Auditors Compliance Certificate regarding the compliance of the conditions of Corporate Governance for the year 2017-18 is annexed with this report pursuant to "Part "E" of Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Business Responsibility Report

Business Responsibility Report as required by SEBI has been hosted on the website of the Bank (www.bankofbaroda.co.in). Any member interested in obtaining a physical copy of the same may write to the Company Secretary of the Bank.

Directors' Responsibility Statement

The Directors confirm that in the preparation of the annual accounts for the Financial Year ended March 31, 2018:

- a) The applicable accounting standards had been followed along with proper explanation relating to material departures if any;
- b) The accounting policies framed in accordance with the guideline of Reserve Bank of India were followed and the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are 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 and loss of the Bank for that period;
- c) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of applicable laws to the Bank for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;



d) The directors had prepared the annual accounts on a going concern basis; and

e) The directors had ensured that internal financial controls followed by the Bank are in accordance with guidelines issued by Reserve Bank of India in this regard and that such internal financial controls are adequate and were operating effectively.

Explanation. For the purposes of this clause, the term "internal financial controls" means the policies and procedures adopted by the Bank for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information;

f) The directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Acknowledgements

The Directors place on record their appreciation for the contributions made by the outgoing Directors viz. Shri Mohammad Mustafa, Shri Prem Kumar Makkar and Dr. R. Narayanaswamy.

The Directors express their sincere thanks to the Government of India, Reserve Bank of India, Securities and Exchange Board of India, other regulatory authorities and the overseas regulators for their continued co-operation, guidance and support.

Bank would like to take this opportunity to express sincere thanks to its valued clients for their continued patronage and support.

The Directors acknowledge with deep appreciation of the cooperation extended by all shareholders, banks and financial institutions, rating agencies, stock exchanges and all the well wishers in India and abroad.

The Directors also take this opportunity to place on record deep appreciation for the hard work and dedication of the employees of our Bank which enabled our Bank to record growth with quality year after year despite economic challenges and consolidate its position as one of the premier banks in the country.

For and on behalf of the Board of Directors,

P. S. Jayakumar

Managing Director & CEO