
THE CHAIRMAN'S MESSAGE

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ECONOMIC OVERVIEW

The year 2015 was another difficult year for the global economy, with economic growth easing to 3.1% as per IMF estimates. While the growth in advanced economies increased moderately, the Emerging Market and Developing Economies' growth decelerated amidst subdued growth performance in the bigger economies of Brazil, Russia and persistent slowdown in China. Low oil, commodity prices and tighter financial conditions kept the risks elevated.

Global growth continued to remain sluggish in the first quarter of this calendar year. Weak business environment in the US led to a near stagnation in growth dynamics. Even the Eurozone grew at the same rate as the previous quarter and Japan continues to show weak growth. However, the recent firming up of oil prices and modest increase in commodity prices have provided support to global economic activity. According to the latest IMF projections, the world economy is poised to grow at 3.2% in 2016 and pick up to 3.5% in 2017. Growth in emerging markets and developing economies is expected to come in at 4.1% and advanced economies are projected to grow at 1.9%.

Against the backdrop of weak global economy, India grew at a healthy 7.6% in FY16 compared to 7.2% in the last fiscal. While, on Gross Value Added (GVA) basis, the economy grew at 7.2% in FY16 against 7.1% in FY15. Forecast of above normal monsoon this year at 106% of Long Period Average will support growth momentum going forward. GDP growth is expected to be better at 7.8% in FY17 (SBI projections). On the external front, improvement in current account deficit has persisted and narrowed to 1.3% of GDP in Q3 FY16 from 1.5% of GDP in Q3 FY15, thanks to the decline in trade deficit. Looking ahead, current account deficit will continue to stay within comfortable range of 1.0%-1.5% even in FY17.

YOUR BANK'S PERFORMANCE

Deposits

In the year 2015-16, aggregate deposits rose by 9.76% to ₹17,30,722 crore from the previous year level of ₹15,76,793 crore. The higher growth of your Bank's deposits compared to All Scheduled Commercial Banks' (ASCB) growth, pushed up the market share by 57 bps to 17.57% in March 2016. Furthermore, this growth was majorly driven by growth in personal segment deposits, more specifically by growth in low cost CASA deposits. The Bank improved its CASA ratio to 43.84%, an improvement of 96 bps from 42.88% last year. Meanwhile, the deposits in Savings Bank grew by 13.17% to ₹5,81,564 crore and current account clocked a growth of 9.62% to reach ₹1,35,768 crore in FY16.

Advances

The Advances of your Bank crossed the ₹15,00,000 crore mark, and grew at 13.04% to the level of ₹15,09,500 crore by March 2016 from the previous year level of ₹13,35,424 crore. The higher growth of our advances than the banking industry, pushed up the market share by 34 bps to 16.30% in 2015-16. By clocking a robust growth of 20.06%, retail advances remained the most impressive sector contributing significantly to increase in overall loan disbursements. Delinquencies in the segment remained significantly benign supporting the Bank's strategy of growing more aggressively here. Within retail, auto loans registered a healthy growth of 19.91% to ₹38,549 crore in FY16 from ₹32,149 crore in FY15 and home loans grew by 19.67% to ₹1,90,552 crore in FY16 from ₹1,59,237 crore in FY15. Your Bank's home loan portfolio constitutes nearly 60% of retail loans. In addition to that, your Bank retained its position as the country's largest home loan provider with a market share of 25.52% amongst ASCB.

Further, the loans to large corporates increased by 16.69% to ₹3,29,026 crore in FY16 from the previous year level of ₹2,81,977 crore. This growth can largely be attributed to capitalizing on refinancing opportunities and judiciously lending to investment grade projects. On a positive note, your Bank remained cautious while lending to mid-corporate and SME segments. In FY16, advances to SME grew by 4.44% to ₹1,89,536 crore and mid-corporate portfolio increased by 6.93% to ₹2,32,626 crore. The aggregate share of both of these

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segments continued to decline to 27% in FY16 compared to 30% at the end of FY15. However, under SME segment, risk mitigated products continued to clock healthy growth, thereby increasing their share in the SME portfolio from 36% in FY15 to 41% in FY16. Finally, in case of agriculture credit, your Bank continued to surpass the target set by the Government, disbursing ₹1,25,387 crore loans as against the scheduled target of ₹89,781 crore for FY16.

Branch Expansion

With the opening of 451 new branches, the branch network of your Bank reached 16,784, as of March 2016, of which 65% are in rural and semi-urban areas. To provide an additional convenient service channel to HNIs besides the branch, your Bank launched a Priority Banking Centre at Bengaluru on 16th November, 2015. This offers personalised services through registered mobile number, enabling valued customers to conduct all non-cash transactions during extended business hours from 8 a.m. to 8 p.m.

In addition, your Bank also targets the local populace in overseas geographies in line with its vision to become a truly International Bank. The number of foreign offices of the Bank is currently at 198 and spread across 37 countries in all the continents. The offices include 55 Branches, 20 other offices, 7 Representative Offices and additional 113 offices of 8 Foreign Subsidiaries. During 2015-16, your Bank has opened 2 new branches in United Kingdom, 4 Indian Visa Application Centres in Bangladesh and upgraded Seoul Representative Office into a full-fledged branch.

Branch Redesign

With an aim at improved customer service, better crowd management, reduction in wait times and overall reduction in the service time (processing time), your Bank has rolled out Customer Experience Excellence Project (CEEP), which was accelerated during FY16. 2674 branches were rolled out under CEEP during FY16 and the total number of branches under CEEP is at 3006 as on March 2016. A brief of the initiatives introduced under CEEP to improve the customer experience is as under:

- Provision of all alternate channel machines viz. ATM, CDM / Recycler, Automatic Cheque Drop Box Machine (ACDM), SWAYAM Bar coded Passbook Printer and Internet enabled PC with printer for online opening of accounts at specified Branches which have adequate footfalls.
- Provision of integrated Queue Management System (QMS) and Customer Feedback TAB at the branch for better crowd management through real time monitoring and Branch choreography to tackle peak level rush.
- Grahak Mitra to facilitate issue of tokens and migration of customers to Alternate Channels.
- Standardised Single Window Operator (SWO) and Service Desks for non-cash transactions.
- Account opening Cell to streamline the account opening process.
- Standardised process for sales management and cross sell.

Technology

Your Bank realised early on the need for doing banking the smart way, in its pursuit towards becoming the Banker to the Nation. Your Bank has been putting significant efforts to upgrade its technology to the best in class, on an on-going basis and the capability to offer near JIT (Just in Time) service delivery environment across its delivery channels. This could become possible largely because of the deep penetration of State Bank Debit Cards with a matching cash-dispensing infrastructure closer to the doorsteps of the customers.

With over 23 crore Debit Cards as on 31st March 2016, your Bank continues to be the market leader in Debit Card issuance in the country. You will be glad to know that 20% of the banked population have their accounts with SBI, with around 38% of total Debit Card penetration in the country.

In sync with the focus of Government of India to create a digital economy, your Bank has strengthened its Debit Card acceptance infrastructure by giving a vigorous thrust on installation of Point of Sale (PoS) terminals, thereby taking the numbers to over 3.02 lakh, up by 50% over last year with a market share of 21.70% of PoS terminals. During FY16, your Bank has registered a growth of 56% in terms of number of transactions and 60% in value of transactions.



To provide best of security, peace and confidence to customers, your Bank replaced all magnetic stripe cards to EMV cum Magnetic Stripe Cards. Advanced Anti Skimming devices, terminal security, SMS alerts, out of zone concepts and PIN based debit card authorisation have been implemented in all geographies.

As all of you know that in FY15, your Bank has launched “sbiINTOUCH” branches. These branches are well equipped with state-of-the-art devices/kiosks to cater to the target group of Gen Y and Smart Affluent. Customers transact on a self-service mode. Both onsite and remote expert assistance through hi-definition video conference are provided for. These Branches provide a consistent experience over omni channels and comprise transaction processing stations (self-service zone), information and interaction stations and advisory rooms. 115 sbiINTOUCH Branches were opened across the country covering 70 districts to take the digital footprint of your Bank forward.

Your Bank is the market leader (35.5% market share in number of transactions) for mobile banking services in India. The Bank’s mobile banking service ‘State Bank Freedom’, offers low cost, round-the-clock, real time banking services focused on convenience and security. During the year, the Bank launched revolutionary mobile banking applications for SME & Corporate customers, “State Bank Anywhere Saral” & “State Bank Anywhere Corporate”, respectively. Also, on SBI Quick (missed call banking), the Bank receives more than 4 lakh calls on an average per day.

In line with our endeavour of being ‘Banker to Digital India’, a facility of Online Application and Tracking for Loans was provided for convenience of customers facilitating status update and speedy disposal of applications.

Your Bank along with its Associate Banks has one of the largest ATM networks in the world with more than 59,000 ATMs including Kiosks, Cash Deposit Machines and Recyclers as on March, 2016. As a new initiative, your Bank has introduced and installed 4,953 Recyclers (with associate banks: 5,768) to provide customers 24x7 cash withdrawal and cash deposit facilities.

Your Bank has rolled out more than 6,000 SWAYAMs (Barcode based Passbook Printing Kiosks) at its branches

and onsite/offsite lobbies. Using these kiosks, customers can print their passbooks on their own using barcode technology. More than 2 crore passbooks have been printed through these Kiosks.

Your Bank’s online banking platform provides robust and customer friendly net banking services to its retail and corporate customers. This cost-effective channel has enabled more than 124 crore transactions during FY16, achieving 38% growth over the previous year.

Last, but not the least, your Bank is the first and only Bank to have its own payment aggregator services. As a Bank and a Payment aggregator, SBlePay has already partnered with 41 banks for providing seamless Internet Banking options to the customers. PayPal has also been added as a new channel in SBlePay.

Profitability

Profitability during the financial year was expected to be under pressure due to two reasons. Firstly, there was a 70 basis points (bps) correction in the base rate which impacted the interest income of the Bank. The interest income growth moderated to 2.96% during FY16. Secondly, front loading of provisioning on account of RBI’s Asset Quality Review (AQR) during Q3 & Q4 also adversely impacted the Net Profit of the Bank.

Thus, on a standalone basis, for Q4 FY16, the Operating Profit of the Bank increased by 11.22% from ₹12,760 crore in Q4 FY15 to ₹14,192 crore. For the financial year, the Operating Profit increased by 9.41% to ₹43,258 crore. Net profit on the other hand declined by 24.05% from ₹13,102 crore in FY15 to ₹9,951 crore in FY16. The total consolidated profit of the Group also declined by 28.1% to ₹12,224 crore in FY16. However, the erosion in profitability was arrested to some extent by robust performance in Non-interest income. The Non-interest income increased from ₹22,576 crore in FY15 to ₹28,158 crore in FY16, a 24.73% growth.

The fall in profitability did not adversely impact Net Interest Rate Margin (NIM) of the Bank. The Bank continued to maintain a healthy NIM of 3.27%. The Bank was able to maintain this margin because of 96 bps improvement in CASA ratio to 43.84%.

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Asset quality

As a part of the RBI's AQR, the Bank was advised to reclassify and/or beef up its provisioning in respect of certain advances. The Bank on its own - beyond the RBI directive - also reviewed the loan book on an account-by-account basis. This exercise resulted in an increase in Non-Performing Asset (NPA) provision by ₹9076 Crore in FY16 to ₹26,984 crore. Over and above the loan loss provisions held on NPAs, the Bank also has ₹3,383 crore as additional provision. Furthermore, the Bank has utilised the Counter Cyclical Provisioning Buffer (CCPB) of ₹1149 crore for making specific provisions for NPAs during this year.

The Gross NPA therefore went up by 225 bps at 6.50% in FY16 as against 4.25% in FY15. Net NPA on the other hand went up by 169 bps at 3.81% in FY16 as against 2.12% in FY15. Notwithstanding the secular rise in provisions, there were notable improvements in some pockets of the loan book. Asset quality improved in the Non-Corporate Book with Gross NPA Ratio in Personal Segment Loans declining from 0.93% in FY15 to 0.75% in FY16. Gross NPA Ratio in Agri. loans also declined from 8.90% in FY15 to 6.93% in FY16. Gross NPA Ratio in SME loans remained stable at around 7.8%.

On the whole, the Net Impaired Asset Ratio (Net NPA+ Net Std Restructured) increased marginally from 6.18% to 6.40%. The provision coverage ratio now stands at 60.7%.

Capital structure

Despite the challenges faced during the last financial year, your Bank has remained well capitalised to absorb future shocks and maintain its future growth trajectory. Capital Adequacy Ratio of the Bank under Basel III improved to 13.12% in March 16 from 12.00% in March 15.

During FY16, the Government infused ₹5393 crore while the Bank raised ₹10,500 crore through Tier II issuance. Revaluation of Real Estate Assets is yet to be reckoned in capital adequacy calculations. Real Estate Revaluation estimated increase in CET1 is more than ₹10,000 crore. The Bank may also consider divestment of non-core investments / subsidiaries to add more than ₹3,000 crore to optimise its available capital.

Dividend

For the year FY16, I am happy to announce that the Board of Directors of your Bank has declared a dividend of ₹2.60 per share of face value of Re 1 each.

New Initiatives

In FY16, your Bank has taken a number of new business initiatives in each and every business segment like home loans, auto loans, SME, rural business etc.

- In line with our vision statement to keep "Customer first", your Bank launched Enterprise Wide Loyalty Programme - State Bank Rewardz to reward our customers for the unstinted trust reposed in us across a wide range of services availed by them.

- In the personal banking business, your Bank has taken a number of new initiatives in the FY16. Some of them are: (i) Holiday Savings Account (with online end to end capabilities) in partnership with Thomas Cook; (ii) FlexiPay Home Loan (Home Loan with Flexible Repayment option) for the individuals and Corporate Home Loan (Home Loan to Corporates / Institutions for creating housing stock for their employees / directors), and (iii) Project TATkal, which is aimed at revamping of Home Loan marketing and processing infrastructure.

- Further, Griha Tara Campaign was launched to encourage each and every member of our staff to market at least one Home Loan proposal. You will be happy to know that more than 75,000 staff members have mobilized over 1.5 lakh home loans proposals, amounting to over ₹32,500 crore, during the year.

- Further, for students going abroad for higher studies, SBI Global Ed-Vantage Scheme with limits upto ₹1.5 crore has been launched.

- Your Bank has also launched "SBI eforex" platform, which would enable customers to book forex rates to hedge their exposure in foreign currency.

- On SME business front, Project Shikhar was rolled out to gain first mover advantage in the ecommerce space. Under this project, the Bank is working on various initiatives to pioneer ecosystem lending through partnerships with new business models. A pioneering innovative product "e-Smart SME" for financing merchants selling through e-commerce platforms has been designed.



■ Your Bank has designed, developed and launched “SBI Exclusif”, a unique suite of Wealth Management services (WMS) for its high net worth customers. At present, only resident individual customers are eligible, but your Bank shall be rolling it out to NRIs and Corporates/Trusts shortly.

■ State Bank Buddy, is the mobile wallet designed for the tech savvy generation, the youth of the country. With this buddy app, the user can do a number of online transactions like mobile recharge, pay utility bills, online shopping and ticketing etc.

■ Your Bank has launched a Mobile App ‘State Bank Samadhaan’ on Google Play Store. This is a Self-Service App enabling SBI customers to avail of a range of services and obtain commonly sought information, without visiting the branch. The App will provide information about deposits, advances, Internet Banking, Mobile Banking, EMI calculation, SBI Branch, ATM Locations, SBI Holidays and give direct access to various mobile apps viz., SBI Freedom, SBI Anywhere, SBI Buddy, SBI Quick, etc. A unique feature of the App is that it will enable any SBI customer to get on-demand his statement of account and interest certificate on Housing Loan and Education Loan securely on his registered email address 24 x 7. Customers will also be able to lodge and track their complaints through this App.

■ Another Mobile App “State Bank No Queue” has been launched; this enables customers to self-generate e-tokens for availing select Banking services at select Branches. This reduces waiting time of customers and reduces crowds, as the token is generated before the customer reaches the Branch.

■ On HR front, your Bank has introduced flexi-timing / flexi-hour scheme in a limited scale where the employee is free to select own work hours within limits laid by the management, on grounds of looking after family and health. Additionally, the Bank has implemented a new system of performance appraisal (Career Development System-CDS) of employees in an objective and transparent manner. The entire system is IT driven and all the employees of the Bank have been assigned KRAs and almost 90% of the positions have been made budgetary or measurable.

■ In order to focus on capital conservation and maximization of return on capital, your Bank has introduced Risk Based Budgeting (RBB). Your Bank has implemented the Risk

Adjusted Return on Capital (RAROC) framework both at customer and portfolio level.

■ For resolution/recoveries of NPAs, Your Bank has introduced certain innovative methods which has given first mover advantage to the Bank in areas like early warning system, arranging Mega e-Auction of large number of properties on Pan-India basis, initiation of criminal actions, identification of un-encumbered properties of the borrowers / guarantors and arranging for attachment of properties before the court.

Associates & Subsidiaries

The five Associate Banks of SBI had a Market share of 5.30% in deposits and 5.33% in advances approximately as on 31st March 2016. Their net profit stood at ₹1,640 crore. Bank’s Central Board has recently passed a resolution to seek the Government’s nod to start negotiating the merger of our five subsidiary banks and Bharatiya Mahila Bank with your bank. Such a merger will make your bank more efficient, derive the benefit of all synergies and improve its dominance in the banking space.

Of the non-banking subsidiaries, SBI Capital Markets Limited, along with its 5 subsidiaries posted a PAT of ₹279 crore during FY16. SBI Life Insurance Company Limited witnessed a PAT of ₹861 crore in FY16 against ₹820 crore in FY15. The ‘Assets Under Management’ of SBI Life recorded a YOY growth of 13% to reach ₹83,429 crore in FY16. SBI Cards and Payment Services (Pvt.) Ltd has grown its card base by 15% and posted net profit of ₹284 crore for FY 16 as against ₹267 crore for FY15. In terms of spends, the company is ranked 4th with 12% market share. SBI DFHI Ltd posted Net Profit of ₹72 crore in FY16. The market share of SBI DFHI was 3.46% amongst all market participants and 20.37% amongst Standalone PDs as on 31st March, 2015. SBI Funds Management Private Limited posted a PAT of ₹165 crore in FY16 as against ₹163 crore earned during FY15. The average Assets Under Management of the company during FY16 stood at ₹1,06,781 crore with market share of 7.89%. SBI Global Factors Limited registered PAT of ₹0.86 crore in FY16. SBI General Insurance Company Limited recorded 29.4% growth in GWP YOY against an industry growth of 13.8%. The total “Assets Under Management” of SBI Pension Funds Pvt. Ltd as on 31st March, 2016 were

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₹46,019 crore (YOY growth of 48%) against ₹31,407 crore in March 2015. The Company maintained lead position amongst Pension Fund Managers in terms of AUM in both Government and Private Sectors.

Recognition & Awards

I am proud to share with you the details of various awards received by your Bank. The thrust on technology has paid off and this is evident from the number of awards won by the Bank in the technology space, some of which are Best Analytics Award by Finnoviti, IDRBT Banking Technology Excellence Awards for Electronic Payment Systems and Managing IT Infrastructure, CIBIL Data Quality Award 2016 for Best Data Quality in Public Sector Banks. In a survey conducted by Digital market intelligence firm, SimilarWeb for online banking and finance sites across 200 countries, 'Onlinesbi.com' was the eighth most popular online banking site, registering 846.6 million average monthly visits in Jan'15-Jan'16 period. Locally also 'Onlinesbi.com' is the third most visited site after IRCTC and Flipkart.

Besides the technology awards, SBI has also been adjudged as The Best Trade Finance Bank-India by Global Finance Magazine, New York for the fourth time in a row. Your Bank was also designated the Best Large Bank and Banker of the Year by Business World. The Guinness Book of World Records recognized SBI's contribution for the PAHAL (DBTL) Scheme for which SBI is the sole sponsor. Your Bank was also the proud recipient of Hellen Keller Awards 2015 for Role Model Company and Best Central PSU award for financial services by 7th India Pride Awards.

The Associates and Subsidiaries of your Bank have also been winners of many prestigious awards throughout the year. To mention a few, State Bank of Bikaner & Jaipur, featured in India's Top 500 Companies 2015, was ranked 5th in Best Mid-Size Indian Banks category by Business Today. State Bank of Hyderabad was awarded Second Best Public Sector Bank by Kerala Bankers club. State Bank of Travancore won CSR & Business Responsibility Award for Emerging Bank-Winner for MSME Banking Excellence Awards-2015.

On the Subsidiary front, SBI Cards & Payments received various awards, one of which was Most Trusted Brand in Credit Cards category by Reader's Digest Customer Survey. SBI Life was adjudged the Best Life Insurance Company (Private Sector) at the Lokmat BFSI Awards, 2015 by World HRD Congress. It was also the Most Trusted Private Life Insurance Brand by The Economic Times, Brand Equity and Nielsen Survey 2015 for the fifth consecutive year.

Corporate Social Responsibility

Your bank has been a pioneer in the space of Corporate Social Responsibility (CSR) in the Indian Banking ecosystem. We believe that we owe a solemn duty to the less fortunate and underprivileged members of the society to make sustainable social change in their lives. To strengthen the State Bank Group's CSR activities and make it more sustainable, your Bank has formed SBI Foundation, a Not-for-Profit company (subsidiary), registered under Section 8 of the Companies Act, 2013. SBI Foundation would support pooling of the CSR dedicated funds of the entire State Bank Group under one umbrella and direct these resources towards comprehensive CSR activities aligned with the Group's Vision.

Further, the CSR spend of your Bank for FY16 stood at ₹143.92 crore. This is the fourth successive year, where our CSR spend has been more than ₹100 crore.

Way Forward

In October 2013, when I took charge as Chairman, I had set six strategic goals for SBI. These six goals were: NPA reduction, risk management, cost control, improving delivery standards, non-interest income and leveraging technology. As I look back today, significant tangible progress has been continued from last year on all fronts.

Asset quality pressures however accelerated during this year due to continued stress in the economy, declining commodity prices and two successive drought years. With the passage of the Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act, 2015 a missing link of institutional intervention has been addressed, which will speed up the recovery process. Also with the passage of the Bankruptcy Law, resolution of stressed assets is expected to become more systematic and timely.



Bank's progress under Basel III transition is on schedule. Bank is striving to control costs by improving and digitizing processes and delivery without compromising on future growth. The Bank's performance on non-interest income front has been fairly satisfactory during this financial year and we will continue to diversify our income sources.

On the technology front, I am quite confident that our efforts have been timely executed and well received by our customers. In the coming year, we aim to build upon this encouraging digital journey. The biggest gain from technological innovation for Your Bank is that it will improve customer retention and help attract savvier, higher income and potentially more profitable customers. Younger customers and the "mass affluent" will want the convenience provided by digital banking. They will therefore migrate to banks that can provide this convenience.

FY17 is expected to be more promising than the previous year primarily because a regime of clear and stable policy environment is now evidently visible. The Government has embarked on promoting many new sectors with an eye on the future. The new sectors include Costal Shipping, Offshore Wind Energy, Defence Manufacturing, Railways and Affordable Housing.

The contours of banking sector are changing in line with the aspirations of young India that is becoming more technology oriented. The investments in digital banking by Your Bank will pay rich dividends once issues of asset quality are sorted out.

I thank all our shareholders for their continued faith in our strength and capabilities, customers for their valuable support and trust and our employees for their tireless efforts towards achieving our goals.

Yours sincerely,

(Arundhati Bhattacharya)