

The Chairman's Message



Dear Shareholders,

It gives me great pleasure to place before you the highlights of your Bank's performance during the financial year 2014-15. Details of the achievements and initiatives taken by your Bank are provided in the enclosed Annual Report for the year 2014-15.

ECONOMIC OVERVIEW

The global economy advanced at a moderate pace in 2014 with greater divergence across various economies. However, the economic environment seems to be turning for the better with the recent sharp fall in international prices of crude oil, which is expected to boost global aggregate demand and recovery in the US economy. Euro Area Q1 GDP growth at 0.4% - a bright spot in a weak global economy - may further bolster global growth momentum going forward. The US job growth continues to be robust suggesting that the US labour market conditions are improving. As per the International Monetary Fund's (IMF) latest projections, the world economy is poised to grow at 3.5% in 2015, a moderate increase from last year's 3.4%. While the collective GDP growth rate of the advanced economies is expected to accelerate to 2.4% in 2015 and 2016, growth in the emerging markets and developing economies is likely to decelerate modestly to 4.3% in 2015 (from 4.6% in 2014) before increasing to 4.7% in 2016, albeit with continued divergence across economies.

For India, as per the new measure of growth, the Gross Value Added (GVA) declined in the final quarter of FY2015

to 6.1% from 8.4% in Q2 FY2015 with the figure for the whole year coming in at 7.2%. However, the economic growth as measured by GDP at market prices grew 7.5% in Q4 FY2015 (7.3% in FY2015). The huge difference in Q4 GDP and GVA (of 1.4 percentage points) is due to productivity gains in Manufacturing and robust growth in Trade, Hotels, Transport, Communication and Services related to broadcasting sectors.

India is poised to recover moderately with industrial production gaining momentum. With ebbing inflationary pressures there may be further scope for monetary stimulus to pump up domestic demand. Interestingly the risk of deficit monsoon seems to be dissipating with more than adequate rainfall in June 2015. On the external front, exports have been disappointing in FY2015 (-1.2% compared to 4.7% growth in FY2014) against the backdrop of weak global demand. Nonetheless, lower import bill because of weak oil prices has helped Current Account Deficit (CAD) to narrow in FY2015 to 1.3% of GDP from 1.7% in FY2014. Looking ahead, boost to exports in the backdrop of global economic recovery and improvement in domestic investment climate, backed by various initiatives of the Government, supports favourable growth outlook.

YOUR BANK'S PERFORMANCE

Deposits

In the year 2014-15, the aggregate deposits rose by 13.08% to ₹15,76,793 crores, from the previous year level of ₹13,94,409 crores. The higher growth in Bank's deposits base, as compared to All Scheduled Commercial Banks



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(ASCBs), pushed up the market share of your Bank by 43 bps to 17.00% by March, 2015. The growth in deposits was mainly achieved by higher mobilisation of retail deposits. The domestic retail TD ratio of the Bank improved to 49.06% during FY2015 from 45.47% in the previous fiscal. The Bank continues to have healthy CASA ratio of 42.88%, with the ratio of CASA + retail TD to domestic deposits increasing further to 91.9% in March 2015 from 89.89% in the previous year. Meanwhile, the deposits in the Savings Bank grew by 9.5% to ₹5,13,905 crores and the current account clocked a growth of 11.65%.

Advances

The Advances of your Bank crossed the ₹13,00,000 crores mark and grew by 7.25% in FY2015 to a level of ₹13,35,424 crores. In the year 2014-15, your Bank remained cautious in lending to mid-corporate and SME segment (both registering flat growth), while loans to large corporates was pegged at 12%. This growth can largely be attributed to capitalising on refinancing opportunities and disbursements to some stalled projects. Industry-wise, credit to infrastructure (21%) and iron and steel (16%) remained the largest beneficiaries.

Further, by clocking 15% robust growth, domestic retail remained the most impressive sector making maximum contribution to overall loan disbursements growth. Within retail, auto loans registered a healthy growth of 15% to ₹32,149 crores from ₹27,925 crores by March 2014. In addition, with ₹1,59,237 crores home loans (+13%), your Bank retained its position as the country's largest home loan provider with a market share of 25.24% amongst ASCB. Education Loans increased by ₹724 crores in 2014-15 and here again SBI is the market leader with a market share of 24.39% among ASCBs. Finally, in case of agriculture credit, your bank continued to surpass the target set by the Government disbursing ₹86,193 crores loans as against the scheduled target of ₹84,500 crores for 2014-15.

Branch Expansion

As of March, 2015, the branch network of your Bank reached 16,333, of which 66% are in rural and semi-urban areas. To provide an excellent ambience along with

well-skilled teams of officials to serve the discerning NRI customers, your Bank has 81 specialised and dedicated NRI branches in India. Apart from these, there are also about 100 NRI intensive branches, together servicing a total of 16 lakh NRI customers.

Diversity in operating structures is a cornerstone of your Bank's expansion activities in different markets. The number of foreign offices of the Bank at 191 is spread across 36 countries. The offices include 69 Branches, 8 Representative Offices, 110 Offices of the seven foreign banking subsidiaries and 4 other Offices. During 2014-15, your Bank opened a new Representative Office in Myanmar and Indian Visa Application Receiving Centre at Dhanmondi, Bangladesh.

Technology

The new age banking is all about digital banking as people of all generations are increasingly using the Internet, social media and their smart phones to do their banking. As the largest bank in India, your Bank is integral to thousands of commercial entities and millions of personal lives. SBI has always evolved with time to embrace new challenges and changing consumer attitudes.

Your Bank realises that modern banking is all about connecting people to their money more quickly, accurately and efficiently than ever before. The Bank is squarely focussed on what its existing and prospective customers want, and is ahead of the curve in embracing and evolving a digital business model.

In this regard, sbiINTOUCH is a giant leap in 2014-15. It realises your Bank's vision for integrating the huge network of the Bank's ecosystem and the digital/mobile platforms together, to provide a world-class banking experience to the customer. These outlets, across 6 cities, are equipped with state-of-the-art gadgets and machines, which allow customers to transact on a self-serving mode and with both onsite and remote expert assistance. They provide an immersive experience over a multitude of channels and comprise transaction processing stations (self-service zone), information and interaction stations, advisory rooms and business lounges.



Along with this, your Bank is aggressive in rolling out Cash Deposit Machines (CDM) for cash deposit by customers at these machines. By March, 2015, the number of CDMs installed was 1,849, increasing from 698 in March, 2013. These CDMs are available to the customer 24x7 for their convenience.

Your Bank has launched SWAYAM, a self-service barcode based passbook printer in November, 2014, aiming to roll out 2,500 passbook printing Kiosks by FY16. Using these Kiosks, customers can print their passbooks on their own. More than 1,500 such Kiosks have been rolled out as on March, 2015, recording more than 2,50,000 transactions on a daily basis. During the short span of 4 months, more than 1 crore passbook printing transactions were performed through SWAYAM.

Your Bank, along with its Associate Banks, has one of the largest ATM networks in the world with more than 54 thousand ATMs, including Kiosks and Cash Deposit Machines as on March, 2015. Your bank has issued more than 20 crores debit cards. The ATM Base 24 Switch has recently been upgraded to handle close to 50,000 ATMs, in addition to the Electra Switch.

Your Bank's online banking platform provides robust and customer friendly net banking services to its retail and corporate customers, including PSUs and Government Agencies. This cost-effective channel has enabled more than 86 crores transactions during 2014-15, achieving 39% growth over the previous year. Our robust Retail Internet Banking (RINB) platform has also been optimised for visually impaired customers.

In providing banking through Mobile Phones, your Bank is the market leader with a market share of 41% in transaction volume. Your Bank's mobile banking service, State Bank Freedom, offers low cost, round-the-clock, real time banking services focussed on convenience and security.

Last, but not the least, your Bank has launched Tab Banking services for opening saving bank accounts, giving in-principle sanction of housing loans & auto loans and for recording PSS (Pre-Sanction Survey) of SME Loans.

Profitability

During FY2015, the deposits growth outpaced the advances by a substantial margin due to a fall in consumption demand. Thus, preserving profitability remained a challenge during the year. Despite this, the Bank's standalone net profit increased by 20.3% to ₹13,102 crores during FY2015. The robust growth in profit was achieved by a two-pronged approach. Firstly, the Bank efficiently deployed the available funds in capital markets which boosted its 'other income' by ₹4,023 crores in FY2015. Secondly, to prevent the erosion in interest income, the Bank monitored its loan book rigorously. Accordingly, the 'net interest income' component grew by 11.63% in FY2015 in comparison to 11.17% in FY2014. The net interest margin of the Bank continued to remain healthy at 3.54%, up by 5 bps over last year.

The Group profit of the Bank also registered a healthy growth of 19.9% from ₹14,174 crores in FY2014 to ₹16,994 crores in FY2015. Both banking and non-banking subsidiaries registered healthy growth in net profits of 15.23% and 12.70%, respectively.

Asset quality

The general economic condition began showing some signs of improvement during the second half of the financial year. This had a favourable impact on the asset quality which improved during the financial year. The Gross Non-Performing Assets (GNPA) and the net NPA declined by 70 bps and 45 bps, respectively, in FY2015. In absolute figures, the net NPA declined by ₹3,505 crores to ₹27,591 crores by March 2015. Recoveries under NPA accounts increased by 32.33% to ₹4,485 crores, while the recoveries under the written-off accounts also registered an impressive growth of 35.51%. The provision coverage ratio also remained healthy at 69.13% at March 2015, up from 62.86% as at March 2014.

Capital structure

As the pace of economic activity gathers further momentum in the coming years, the Bank will be required to improve and strengthen its capital planning processes to support future business growth. Furthermore, in view of the implementation of Basel III Capital Regulations,



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the transitional period for full implementation of Basel III Capital Regulations in India has already been extended up to March 31, 2019 by RBI. In December 2014, the Union Cabinet gave an approval for allowing Public Sector Banks to raise capital to meet their additional capital requirements under Basel III by diluting Government holding up to 52% in a phased manner. This has given additional flexibility to the Bank to efficiently manage its capital planning during the transition period.

The yearly milestones under RBI Guidelines on transition to Basel III Capital Regulations have been comfortably achieved in FY2015. Your Bank is adequately capitalised as per the current requirements under Basel III. The Tier I capital adequacy ratio (CAR) of your Bank stood at 9.60%, as against the RBI minimum requirement of 7% as on March 2015. The Minimum Common Equity Tier 1 CAR stood at 9.31%, well over the RBI mandated 5.5%. The overall CAR of the Bank by the end of FY2015 was 12.0%, largely unchanged from the level in FY2014.

Dividend

For the year 2014-15, I am happy to announce that the Board of Directors of your Bank has declared a dividend of ₹3.50 per share of face value of Rupee 1 each.

New Initiatives

In 2014-15, your Bank took a number of new business initiatives in each and every business segment, such as home loans, auto loans, SME, and rural business, among others.

- ▶ For healthy low cost deposits (CASA), your Bank offers customised Special Salary Packages for employees of Corporates, Defence, Para Military, Railways, Central and State Governments, using a focussed marketing approach.
- ▶ In retail business, the Bank has set a new benchmark in banking in the country by offering innovative features such as personal accidental/medical insurance to SB Account holders. Additionally, your Bank launched two new SB products for Minors (10 years and above), namely "Pehla Kadam" and "Pehli Udaan".
- ▶ The Bank continues its focus on the development of innovative, technology enabled channels for delivering banking services among the rural populace. Your Bank has successfully launched several new initiatives such as

Aadhaar enabled Payment Systems (AEPS), automated e-KYC, MPS, Micro ATM, SB-OD facility under PMJDY and DBT/ DBTL payments. Additionally, we are proud to say that your Bank is the sole Sponsor Bank for the benefit transfer for LPG subsidy (DBTL) and has handled over 29 crores DBTL transactions in a short period of time from 15th November 14 to 31 Mar'15.

- ▶ Your Bank has launched its new corporate website to widen and strengthen its relationship with customers. For better customer service and to reduce footfalls at branch premises, SBI has launched 'SBI Quick-Missed Call Banking', a simple and quick way to get balance or mini statement of account through mobile phone. This facility is available for SB/CA/Overdraft/Cash-credit accounts.
- ▶ To attract High Net Worth Home Loan customers, your Bank introduced a uniform Interest Rate Structure, irrespective of the loan limit. Additionally, the Bank has undertaken a review of HL sourcing and delivery processes with a view to remove possible bottlenecks in the delivery process, thus enhancing the overall service. In a move to leverage the Bank group network, your Bank has established marketing synergy with SBICAP Securities Limited under the Universal Distribution Network. Additionally, a new campaign, namely 'Griha Tara' has been launched for the staff members for encouraging increased participation in marketing of home loans.
- ▶ A new initiative has been taken for sponsoring Cooperative Banks under National Financial Switch (NFS) sub-membership through the Application Service Provider (ASP) model for ATM services. This arrangement with Co-operative Banks provides an excellent opportunity to open Current Accounts of Co-operative Banks spread all over India, resulting in accretion of current account deposits.
- ▶ For SME, your Bank has revamped the delivery platform i.e. the SMECCCs, under "Project Vijay", to improve the growth of business and reduction in NPA levels.
- ▶ For speedy online payment and settlement, your Bank has integrated the "SBI ePay", the first and only payment aggregator service by any bank in India, to the flagship schemes of the Government like "Clean Ganga Fund" and "Swachh Bharat", for collecting funds/ donations from across the world.



- ▶ During the year, your Bank has embarked on a number of initiatives to clamp down on NPAs. Some of them are: (i) web-based Assets Tracking & Monitoring (AT@M); (ii) regular calls to stressed accounts (SMAs) in Retail segment and Real Estate sector to prevent slippages; and (iii) Assets Tracking Centres at Circle level, etc. Additionally, the Bank has formed various committees to review stressed assets periodically and suggest resolutions and turn around strategies.
- ▶ Your Bank has started Dynamic Credit Rating review of borrowal accounts to capture deterioration in credit quality promptly and to initiate corrective action and facilitate correct pricing of risk.
- ▶ For enhancing quality and professionalism in all our endeavours, your Bank completed “Aarohan”, a specially designed training programme, covering 2,08,019 employees.
- ▶ Your Bank launched a new Career Development System (CDS) and Manpower Planning, under the name of project ‘Saksham’, with the objective of scientific and objective approach for performance measurement and resource planning at all levels in the Bank. The new CDS is intended to be an effective tool for promotion, incentives and rewards.
- ▶ ‘SBI Youth for India’ is a unique Indian rural fellowship programme initiated, funded and managed by SBI in partnership with reputed NGOs of the country. It provides a framework for India’s bright young minds to join hands with rural communities and empathise with their struggles and connect with their aspirations.

Associates & Subsidiaries

Associates and Subsidiaries of your Bank performed well in 2014-15. The net profit of five associate banks grew by 15.2% to ₹3,201 crores, while their market share in deposits and credits stood at 5.22% and 5.66%, respectively. All the associates are well-capitalised with 11.44% (average) capital adequacy ratio.

Of the non-banking subsidiaries, SBI Life Insurance Company Ltd. posted a net profit of ₹820 crores and has increased its market share to 4.9% from 4.2%. SBI Capital Market Ltd registered a net profit of ₹338 crores, showing growth of 28% from last year. It has acquired the top slot in various rankings published by agencies

such as Bloomberg, Thomson Reuters, Dealogic, etc. SBI Cards and Payment Services (Pvt.) Ltd. posted a net profit of ₹267 crores, a slight dip from last year’s ₹293 crores. It is the 3rd largest in the industry in terms of Cards in Force with 15% market share with a base of 31.58 lakhs cards. SBI Funds Management recorded a net profit of ₹163 crores. It is the 6th largest Fund House in terms of Average “Assets Under Management” and a leading player in the market with over 4 million investors. SBI DFHI Ltd clocked a growth of 52% to ₹93 crores from last year’s ₹61 crores. It has a market share of 16% among all standalone primary dealers.

Recognition & Awards

I am proud to share with you the details of various awards received by your Bank. The coveted Brand of the Year 2015 by the World Branding Forum was bagged by SBI. It also won the award of Most Valuable Indian Brands 2014 by Brandz Top 50. It was also awarded the Best Bank-Public Sector by BFSI.

Your Bank is one of the most socially responsible brands as evident by the number of awards bagged in CSR domain, some of which are: Socially Responsible Bank - Magna Awards 2015 by Business World Magazine, Excellence & Leadership in CSR - Golden Globe Tigers Awards by World CSR Day, Innovations in CSR Practices - Golden Globe Tigers Awards by World CSR Day, Golden Peacock Award for CSR by Institute of Directors, New Delhi, Environmental Sustainability Award 2014 by BFSI Magazine, Asia Sustainability Excellence Award 2014 by World CSR Congress, Best in Class Corporate Social Responsibility Practices Awards 2014 by CMO Asia.

The associates and subsidiaries of the Bank have also been winners of prestigious awards throughout the year.

- ▶ State Bank of Bikaner & Jaipur was awarded the “Social Banking Excellence Award: 2014: Public Sector Banks Category” by ASSOCHAM. State Bank of Hyderabad received “Best Bank (Public Sector) Award” instituted by ABP News. State Bank of Mysore was awarded Best Bank Award for Tech Savvy – by Chamber of Indian Micro, Small & Medium Enterprises, New Delhi. State



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Bank of Patiala has received "Best Bank Award for New Initiative - Runner Up" from Chamber of Indian Micro Small and Medium Enterprises (CIMSME), New Delhi.

On the Subsidiary front,

- ▶ SBI Cards won 'Gold' at Reader's Digest Trusted Brand Survey 2015, for the 6th time. SBI Capital Market won two awards for best high yield bond - IFR Asia Regional Awards High Yield Bond and Asia Money - Regional Capital Markets Awards - Best High Yield Bond. SBICAP Securities Ltd bagged an Appreciation certificate from NSE for being Top Performing Members in 2014 under new client enrolment and Gold ETF Mobilisation. SBI MF won the Most Trusted Brand 2014 - Gold in the category of investment Banking & Mutual Funds by Readers Digest. SBI Life has received 15 awards during 2014-15, a few of them are: Inspiring Work Place Award 2014 in BFSI, The Most Admired Life Insurance Company and the Best Life Insurance Company in the Private Sector, in the BFSI 2014 Awards, Most Trusted Private Life Insurance Brand by Economic Times, Brand Equity and Nielsen Survey for four consecutive years. SBI General was the winner of iCMG (inter Company Marketing Group) Excellence Award for Enterprise Architecture in 2014 and Runner-up - IAIDQ Data Quality Asia Pacific Award 2014.

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, tangible progress has been made on all the six fronts. Risk due to NPA has been contained against all odds. Bank's progress under Basel III transition and hence migration to advanced approach to risk management are on schedule. Bank is striving to control cost without compromising future growth. Bank has conducted 'Aarohan - Aim.. Aspire.. Achieve..' for enhancing quality and professionalism in our employees. The Bank's performance on non-interest income has been satisfactory during this financial year and we will continue to diversify our income sources. On

the technology front, I am quite content that our efforts have been timely executed and well received by our customers. In the coming year, we aim to build upon this encouraging start.

FY2016 is expected to be more promising than the previous year. This is mainly because 2014 General Elections produced a very stable political environment on the plank of commitment to growth. The federal polity is trying for better synergy and such an environment will act as a catalyst along with the enabling economic environment and bring the desired results.

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.

I would like to end with a quote from Swami Vivekananda

"Are great things ever done smoothly?
Time, patience, and indomitable will must show."

These noble thoughts inspire us to persevere in our efforts to lead the Bank towards even better performance.

With warm regards.

Yours Sincerely,

Arundhati Bhattacharya

