

## The Chairman's Message

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Dear Shareholders,

It gives me great pleasure to place before you the highlights of your Bank's performance during the financial year 2017-18. Details of the achievements and initiatives taken by your Bank are provided in the enclosed Annual Report for the year 2017-18.

## ECONOMIC OVERVIEW

Global economy experienced broad based growth in 2017. In particular, economic activity gained momentum in the US and the Euro area. Meanwhile, emerging market and developing economies have also performed better with growth pick-up in emerging Europe and emerging Asia being the major contributors to growth. Levying of tariffs by the US and fears of trade war between the US and China increased the financial volatility in 2018. However, with the US suspending the tariffs against China after some negotiations between the two countries, fear of full-fledged trade war has now abated. Overall, global GDP is expected to grow at 3.9% in 2018 with the advanced and emerging economies to post 2.5% and 4.9% growth respectively. Having said that, increase in protectionist policies, geo-political uncertainty and the escalation of US sanctions on Iran with the consequent impact on oil price represent the key risks to global growth.

Indian economy is expected to grow at 7.4% in FY2019 from 6.7% in FY2018 against the backdrop of improved global demand, better monsoon prospects, credit uptick and continued reforms undertaken by the Government. Furthermore, speeding up of the resolution process of distressed assets under the Insolvency and Bankruptcy Code is likely to improve confidence

in the economy. Increasing oil prices though remains a major risk to the country's external balance.

## YOUR BANK'S PERFORMANCE

### Sustained CASA growth Driving Deposits Growth

Due to higher base led by demonetisation, the aggregate deposits of your Bank grew at a modest rate of 4.68% to ₹ 27,06,343 crore from the previous year level of ₹ 25,85,320 crore. The growth in aggregate deposits is mainly due to the increase in savings bank deposits, which grew by 7.88% YoY and deposits from the foreign offices (grew by 17.07%). Your Bank has improved its CASA ratio to 45.68%, an improvement of 128 bps from 44.40% last year.

### Retail Loans Drives Credit Growth

The gross advances of your Bank crossed the ₹ 20,00,000 crore mark, and grew at 4.91% to the level of ₹ 20,48,387 crore by March 2018 from the previous year level of ₹ 19,52,507 crore. Retail segments (Per, SME & Agri) now constitute 57.5% of the domestic loan book (₹ 17,46,389 crore). Much of the growth in advances came from Per Retail segments, including home loans and auto loans. Overall, Per Retail loans grew by 13.55% in FY2018, which is in line with the Bank's strategy of growing more aggressively in this segment. Within retail, home loans grew by 13.26% to ₹ 3,13,106 crore in FY2018 from ₹ 2,76,454 crore in FY2017. Your Bank's home loan portfolio now constitutes more than 57% of Per Retail loans. Additionally, your Bank continues to be the largest home loan provider in

the banking sector, with a market share of over 32% as on 31<sup>st</sup> March 2018 amongst ASCB.

## Channel Strategy

With a view to building and sustaining the momentum for Transforming India, your Bank has created the largest number of touch points in terms of number of branches and other modes, reaching out to public at large. Today, we have 22,414 branches, 59,541 ATMs, CDMs, Recyclers, 6.10 lakh PoS machines and 58,274 Business Correspondent outlets. The Customer Experience Excellence Project (CEEP) has been rolled out in more than five thousand branches across the country which are equipped with Self Service machines such as ATM, CDM/ Recycler, SWAYAM for Passbook Printing, Electronic Cheque Drop Box and Internet enabled PCs.

Your Bank has been an epitome of trust across the length and breadth of the country. It has extended its wings across the globe with financial products for the NRI community, Indian corporates, exporters and importers as well as the local populace and corporates. The number of foreign offices of your Bank is currently 206, spread across 35 countries in all the continents. During FY2018, Your Bank opened one new branch in Maldives. Nepal SBI Bank Limited, a subsidiary of SBI opened seven branches. During the same period, Sylhet branch (Bangladesh) and Doha branch (Qatar) were closed. Further, two Managed Exchange companies and two Representative Offices (Dubai and Abu Dhabi) came within the ambit of SBI on account of merger with Associate Banks.

## Technology & Digital Banking

Your Bank is a strong proponent of leveraging information technology to deliver convenience to its customers. Your Bank has been offering innovative and cutting-edge products to its customers with the objective of enabling banking transactions at anytime and from anywhere.

With approximately 27.83 crore Debit Cards as of March 2018, your Bank continues to lead in Debit Card issuance in the country, with a market share of 32.3%. In August 2017, your Bank has also launched, the facility of instant issuance of personalised Photo Debit Card – ‘Quick Photo Debit Card’ within five minutes to Saving Bank (SB) account holder of any branch of SBI.

Your Bank has one of the largest ATM networks in the world with 59,541 ATMs including Cash Deposit Machines (CDMs) and Recyclers as on 31<sup>st</sup> March, 2018. Your Bank has a 28.8% market share in ATM network in India. SBI ATM network transacts 47.2% of the country’s total ATM transactions. On an average, over 1 crore transactions per day are routed through our ATM network.

The Mobile Banking channel now has over 305 lakh registered users and has processed transactions amounting to ₹ 6,00,000 crore in FY2018. Your Bank has also retained its prime numero uno position among Banks, both in terms of volume of transactions (21.2%) and value of transactions (19.8%).

SBI Online is the 5<sup>th</sup> most popular online global financial website with 4.79 crore users and 159 crore transactions during the year.

India is undergoing a digital transformation and witnessing an accelerated pace of innovation and technology adoption. As the digital economy is flourishing, your Bank is also progressing with its technological advancements and growing its presence in multi-channel platforms, keeping itself ahead of the curve. Consequent to our digital initiatives, we have improved the share of digital transactions as a percentage of total transactions by over 600 bps during the year.

On 24<sup>th</sup> November, 2017, State Bank of India launched India’s first comprehensive digital service platform “YONO”, an acronym for ‘You Only Need One’. An integrated omni-channel digital platform, YONO offers banking and other financial products along with access to India’s largest B2C marketplace for its customers to meet their lifestyle needs across 16 categories. As of 31<sup>st</sup> March, 2018, there were more than 4 million downloads with nearly 15 lakh registered users and 1.36 lakh Digital and Insta Savings Accounts opened.

We are also committed towards transforming ourselves into a digitalised organisation, supported by technology enabled backend operations. Along with the digitalisation of consumer facing operations, we continue to invest in the automation of our internal processes to improve efficiency, risk management, reduce cost of operations and re-deploy employees in revenue accretive roles. Further, such consistent initiative towards digitising payment transactions, not only reduces cost of transactions but also helps in reducing carbon footprint through lesser use of paper.

## Profitability

The year 2017-18 was a difficult year as far as net profits are concerned. The main contributing factors being increase in loan loss provisions, mark to market losses on Government securities and provisions and payments to employees.

The Operating Profit and Net Interest Income of the Bank remained flat at ₹ 59,511 crore and ₹ 74,854 crore respectively in FY2018 on the back of reduction in MCLR and Base rate and continued Asset Quality stress.

The Non-interest and fee income registered a growth of 4.61% and 10.51% respectively in FY2018. Recovery in Written-Off Accounts registered a robust growth of 34.56% and the trend is expected to continue. The staff expenses declined by 2.34% during FY2018. While we did have 3,211 new employees who joined the Bank, due to retirement etc. of 18,973 employees, the overall staff strength declined by 15,762 during the year.

Similarly, due to strong awareness created across the organisation and various cost optimisation measures put in place, the increase in overheads was contained to below 10%.

On the trading side, Q4 was an exceptional quarter with domestic bond yields rising rapidly on the back of rise in crude oil prices, hardening of US interest rates and rise of geopolitical risks in Middle East region. As a result, trading income declined and significant MTM losses occurred. RBI had since then permitted banks to amortise losses on the trading book over four quarters, however, we have not availed the benefit of RBI dispensation.

## Asset Quality

Gross NPAs of the Bank increased from ₹ 1,77,866 crore as on March 2017 to ₹ 2,23,427 crore as on March 2018, whereas Net NPA increased from ₹ 96,978 crore to ₹ 1,10,855 crore during the same period. Material changes in the method of recognising corporate stressed assets occurred after the RBI’s February 2018 notification. Despite this, the slippage ratio in FY2018 has declined to 4.85% from 5.78% in the previous year. Overall the Gross NPA Ratio stood at 10.91% and the Net NPA ratio at 5.73% at the end of FY2018. Provision Coverage Ratio (PCR) improved by 464 bps from 61.53% as on March 2017 to 66.17% as on March 2018.

The Bank has approached the National Company Law Tribunal (NCLT) after the RBI issued directives under the Banking Regulation Act 1949. As on March 2018, the Bank has ₹ 77,626 crore of funds tied in accounts listed before NCLT for resolution. The PCR for these accounts is 63%, which we believe is adequate for resolution of these accounts. We expect bulk of the resolutions in NCLT List 1 to go through in H1FY19 and NCLT List 2 is likely to be resolved by end of FY2019.

The retail asset quality has held up well during this period and I do believe that the corporate credit cycle is also nearing the end. From FY2019 onwards we should see a significant improvement.

## Capital Structure

Despite the drag on profitability due to higher provisioning, the Bank remained well capitalised. Through portfolio reordering, Credit Risk Weighted Assets (CRWA) to gross Advances ratio declined by 780 bps to 71.14% as on 31<sup>st</sup> March 2018. During the year, the Bank raised ₹ 15,000 crore of equity through a very successful QIP, which was the largest ever in India and the third largest in Asia-Pacific. The Government in turn has infused ₹ 8,800 crore. ₹ 5,436 crore was also raised through disinvestment of 8% stake in SBI Life through IPO route.

As a result, CET 1 Ratio of the Bank improved by 27 bps to 9.68% as on March 2018. Overall CAR remained at 12.60%, well above the regulatory requirements.

## New Initiatives

During FY2018, your Bank has undertaken several innovative and new initiatives to give additional thrust to each and every business segment of the Bank. Some of the important initiatives taken are as under:

- Your Bank completed the historic merger of SBI with its five Associate Banks and Bhartiya Mahila Bank Ltd. on 1<sup>st</sup> April, 2017. Due to the tireless efforts of our team, the whole process went through seamlessly, with no hiccups either on the technology front or the HR front. Customer onboarding was very smooth and we are now reaping the synergies of merger on multiple fronts.
- In line with Government of India's priorities, your Bank has taken multiple initiatives to boost the affordable housing sector. To meet customer expectations of better and faster delivery in the home loan segment, your Bank undertook Assured Turn-Around-Time Drive which resulted in reduction of average turn-around time (TAT) of Home Loan Sanction to 9 days by March 2018. This TAT is comparable to the best in the industry.

- Your Bank has come up with two new websites, one exclusively for SBI Home Loans (<https://homeloans.sbi>). It updates customers with the latest information regarding Bank's home loan products. The other is SBI Realty Website ([www.sbirealty.in](http://www.sbirealty.in)). This website showcases your Bank's approved projects across India to prospective home buyers. It helps to bring together developers and buyers on a single platform, giving buyers access to the deals on SBI approved projects.
- Specific to the area of affordable housing, "SBI Grih Nirman Affordable Housing Project Finance Scheme" has been launched to tap the emerging potential for financing affordable Housing Projects and is especially geared towards first-time home buyers. Also, your Bank has partnered with CREDAI in an event where 375 affordable housing projects were launched by builders across India.
- Your Bank has integrated Bank's Loan Origination System with Vidya Lakshmi Portal (VLP) of Government of India to ensure better tracking of Education loan applications and faster sanctioning of loans.
- Wealth Management and Transaction Banking have now become sustainable levers for fee income. Under the Wealth Management Services, your Bank added 5 new centres and 55 dedicated new Wealth Hubs during the financial year. The number of customers has increased to 24,168 in March 2018 from 3,772 in March 2017 and AUM reached ₹ 14,284 crore in March 2018 from ₹ 2,996 crore in March 2017. Your Bank has also launched Wealth Management Services for Non-Resident Indians.
- Transaction Banking Unit (TBU), a technology driven platform, offers comprehensive transaction related products and solutions to clients. Fee income from TBU was up by 33.6% YoY and Turnover went up by 67.3% during FY2018. By keeping a track on market developments, your Bank provides technology based futuristic solutions to clients.
- Your Bank launched India's first comprehensive digital service platform "YONO" (You Only Need One) which offers banking and other financial products along with access to India's largest B2C marketplace for its customers to meet their lifestyle needs.
- With a vision to 'Be the Bank of Choice for a Transforming India', your Bank has successfully implemented the ambitious project of NHAI - National Electronic Toll Collection (NETC). Your Bank is issuing SBI FASTag, working on Radio Frequency Identification technology (RFID) which enables the customers to pay the toll electronically across all the National Highway Toll plazas. Using SBI FASTag customers can pay their toll electronically and can top up/recharge their SBI FASTag wallet online through a dedicated portal using cards or net banking of any bank.

## SUBSIDIARIES

Through its subsidiaries SBI provides a wide gamut of financial services to its customers. The growth exhibited by the subsidiaries has been healthy in this financial year.

SBI Capital Markets Limited posted a PAT of ₹ 327 crore during FY2018 vis-à-vis ₹ 252 crore in FY2017. SBI Life Insurance has proven its market leadership in FY2018 with number 1 position in Individual New Business Premium among private insurers. The Company recorded PAT of ₹ 1,150 crore in FY2018 against ₹ 955 crore in FY2017. SBI Cards' Credit Card base has grown by 37% YoY and Spends on card witnessed a YoY growth of 73%. The company delivered PAT of ₹ 363 crore for FY2018 vis-à-vis ₹ 390 crore in FY2017. SBI Funds Management Private Limited, with an investor base of over 7.8 million posted a PAT of ₹ 331

crore during FY2018 against ₹ 224 crore during FY2017. Also, during the current year SBI Mutual Funds crossed the historic milestone of ₹ 2 Trillion Assets under Management (AUM) mark.

SBI Global Factors Private Limited, a leading provider of factoring services for domestic and international trade, displayed turnover of ₹ 3,555 crore for FY2018 as compared to turnover of ₹ 3,047 crore in FY2017. The total AUM of SBI Pension Funds Private Limited as on 31<sup>st</sup> March, 2018 was ₹ 89,283 crore, displaying annual growth of 34% against ₹ 66,723 crore on 31<sup>st</sup> March, 2017. Its overall AUM market share in Private Sector was 58%, while in the Government Sector it was 35%.

SBI General Insurance Company Limited recorded 36.1% YoY growth in Gross Written Premium (₹ 3,553 crore for FY2018) against an industry growth of 17.5%. The PAT was ₹ 396 crore for FY2018 vis-à-vis ₹ 153 crore in FY2017. The company has grown by 124.8% in Crop Insurance in FY2018 by actively participating in the PMFBY schemes and extending geographies.

## RECOGNITION & AWARDS

I am enthused to share with you the details of some of the awards won by your Bank. We were awarded the National Award for 'Highest SHG bank linkages' for FY2018 by Ministry of Rural Development. Your Bank has been declared as the Winner of 'Golden Peacock Award for Risk Management' for 2017. SBI has been awarded as The Best Trade Finance Bank for the South Asia region by Global Trade review, London for the second consecutive year. For the constant efforts put in by your Bank through the SBI Foundation to increase its Corporate Social Responsibility footprint, we have been awarded Golden Globe Tiger Award for Excellence & Leadership in CSR and ET Now CSR Leadership Awards in various categories. In the area of Information Technology, we won Best Bank Award for Use of Technology for Financial Inclusion and Best Bank Award for

Electronic Payment Systems among Large Banks in the IDRBT Banking Technology Excellence Awards. Your Bank's Hindi House magazine PRAYAS was also accredited with the '1<sup>st</sup> Prize' in Rajbhasha Kirti Awards, 2017.

Among the Subsidiaries, SBI Life was awarded India's Leading insurance Company – Life (Private sector) at the Dun & Bradstreet BFSI Summit 2018. It was also adjudged as one of the Most Trusted Brand, 2017 for the Seventh consecutive year by The Economic Times Brand Equity - Nielsen survey. SBI Pension Funds was adjudged winner in the Pension Fund House Category by Outlook Money for FY17. SBI General won the ET Best BFSI Brands Award 2018 and Bancassurance Leader award in the Insurance awards organised by Fintelekt.

## CORPORATE SOCIAL RESPONSIBILITY

Your Bank believes that it has a solemn duty to make sustainable social change in the lives of the less fortunate and underprivileged members of the society. Your Bank always places the interest of the common man, especially the most marginalised, at its core. Your Bank earmarked 1% of the previous year's net profit as the budget for CSR spend for the year. Its CSR activities are widespread and deep-rooted and have made a true difference in the lives of thousands from the underserved and downtrodden communities. CSR is a continuing commitment of your Bank for developing the quality of life of the community and society as a whole. During the year, your Bank conducted 23,007 training programs, training 6,13,020 youngsters from rural areas with settlement rate of 68% through its 151 Rural Self Employment Training Institutes.

The CSR spend of the Bank for FY2018 stood at ₹ 112.96 crore. This is the sixth successive year, where your Bank's CSR spend has crossed the milestone of ₹ 100.00 crore.

## ENVIRONMENT AND SUSTAINABILITY

Your Bank is committed to environment protection and contributes positively to reduce the carbon footprint. Major initiatives in this area are, (i) Waste to gold: A project that aims to motivate and develop the skills of youth to address waste management in the city; and develop small sustainable businesses for their livelihood as well, and (ii) SBI Corbett: Under this project, SBI Foundation is providing villages with a sustainable waste management system and conducting trainings of SHG Workers to provide awareness in nearby schools and hotels.

Responsible interaction with environment to avoid depletion and degeneration of natural resources and maintaining long term quality of the environment is a priority for your Bank. Your Bank has contributed ₹ 2.05 crore towards the following: (a) Acquiring solar power plant, solar water heater and solar street lamps, (b) Tree plantations and maintenance of parks and gardens, and (c) Donating battery operated vehicles.

Your Bank has shown its commitment in the renewable energy space not only by taking up renewable financing but also by building its own captive renewable capacity through wind energy and solar roof tops. Your Bank has so far installed 151 solar roof top sites with a capacity of 6.23 MW.

## WAY FORWARD

The bygone financial year was an exceptional year in many ways. Additionally, the operating environment of the Banks became more challenging as the year progressed due to hardening of bond yields. Financial sector volatility also increased and macro challenges in terms of higher crude prices and trade wars have again gained prominence.

It is in this backdrop, the future strategy of the Bank has to be clearly articulated and executed. In the next two years

the Bank will adopt a strategy that will achieve a healthy credit growth of 10-12% by 2020. Growth in business will be achieved by a two pronged strategy comprising of portfolio reordering that will reduce the CRWA to Total advances ratio and internal reorganisation of the corporate banking.

Revamping of corporate credit structure and system within the Bank will proceed on such lines that will widen the universe of clients and focus on new segments. The Corporate Accounts Group (CAG) will focus on high priority and quality individual & group relationships and the concept of Group relationship coordinators will be introduced. CAG will offer an end-to-end solution to high quality large corporates focusing on fee income, project finance and supply chains around large corporates. The credit risk management function will also be strengthened by on-boarding sector specialists and improving due diligence.

Drawing lessons from the experiences in the banking industry during the last year, the Bank has further strengthened the overall internal audit and control process.

The threat of competition from market competitors cannot be taken lightly and the Bank will leverage its balance sheet strength and pricing power to optimise the risk return matrix.

HR issues need a fresh look as usage of advanced digital technology such as Artificial Intelligence (AI) and big data increases within the Bank. The skill set of the employees needs to be upgraded in line with the changing operating environment. Given the pace of retirements in the next five years, it is important to put in place a robust plan of succession. Potential leaders will be identified and mentored through customised training programmes to create a strong leadership pipeline. Some of these works are already in progress and concrete action plan will be implemented in the next two years.

The contours of banking sector are changing in line with the aspirations of young India who is becoming increasingly technology oriented. The Bank already has a dominant presence in digital space and we shall strive to further improve our position across all digital channels. The Bank is actively

exploring the use of AI, Cloud Platforms and collaboration with FinTechs to improve systems and processes. The investments in digital banking by your Bank will pay rich dividends as issues of asset quality are sorted out. I have no doubt in my mind that financial year 2019 will be the year of hope and financial year 2020 will be the year of happiness.

In the words of an unknown *“The past cannot be changed. The future is yet in your power”*.

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

Yours Sincerely,

(Rajnish Kumar)