



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 2016-17. Details of the achievements and initiatives taken by your Bank are provided in the enclosed Annual Report for the year 2016-17.

ECONOMIC OVERVIEW

Global economy stagnated in 2016 with GDP growth of 3.1% as per the latest IMF estimates. Economic activity in advanced economies eased moderately compared to the previous year, with sluggish performance of the US being the major contributor. Meanwhile, emerging economies performed relatively better.

The good thing is that the modest pick-up in economic activity which began in the second half of 2016 is gaining momentum this year. Japan recovered during the first quarter of this year against the backdrop of strong exports and investments related to the Tokyo 2020 Olympics. Meanwhile, decline in unemployment and improving dynamics of factory output suggests Euro area is also gaining momentum. Even the US economy is expected to improve with the possibility of a fiscal stimulus. Overall, growth in advanced economies is projected to come in at 2% in 2017. Meanwhile, the emerging and developing world is expected to grow at a healthy 4.5% in 2017, with the major support coming from recovery in Russia and Brazil, coupled with resilient India and to some extent China. Nonetheless, rising protectionist policies, oil price dynamics, geo-political tensions represent the downside risks to growth outlook.

Against this backdrop, India's GVA growth which is expected to expand by 6.7% in FY2017 is set to increase to around 7.4% in FY2018 (RBI estimates). However, with faster pace of remonetisation and forecast of normal monsoon by the Indian Meteorological Department, economic

activity is going to further recover in the ongoing fiscal. Furthermore, performance on the external front continues to improve with positive export growth performance since September 2016. The Current account deficit is expected to narrow down to less than 1% in FY2017. Going forward, though recovery in oil prices is likely to put some pressure on external balance, CAD is expected to remain range bound, between 1-1.4% of GDP.

YOUR BANK'S PERFORMANCE

Deposits Surged

In FY2017, aggregate deposits of your Bank have registered a multi-year high growth of 18.14% to ₹ 20,44,751 crore from the previous year level of ₹ 17,30,722 crore. The rise in aggregate deposits is mainly due to the surge in savings bank accounts (which grew by 27.81%), following demonetization. The higher growth of your Bank's deposits compared to All Scheduled Commercial Bank's (ASCB) growth has pushed up the market share by 38 bps to 18.05% in March 2017. Your Bank has improved its CASA ratio to 45.58%, an improvement of 174 bps from 43.84% last year, and a large portion of the deposits have stayed in your Bank despite the lifting of withdrawal limits in mid-March 2017.

Advances Inched Up

Growth in advances of your Bank has remained subdued during FY2017. The gross advances of your Bank crossed the ₹ 16,00,000 crore mark, and grew at 7.80% to the level of ₹ 16,27,273 crore by March 2017 from the previous year level of ₹ 15,09,500 crore. Compared to the banking industry growth, your Bank's higher growth in advances has pushed up the market share by 65 bps to 17.02% in FY2017. You will be happy to know that your Bank's market share is continuously improving over the years. Much of the growth in advances came from retail segments, including home loans and auto loans. Overall, retail loans grew by 21.18%

in FY2017, which is in line with your Bank's strategy of growing more aggressively in this segment. Within retail, auto loans have registered a healthy growth of 21.24% to ₹ 46,736 crore in FY2017 from ₹ 38,549 crore in FY2016 and home loans grew by 17% to ₹ 2,22,605 crore in FY2017 from ₹ 1,90,552 crore in FY2016. Your Bank's home loan portfolio constitutes nearly 56% of retail loans. Additionally, your Bank has continued to be the largest home loan provider in the banking sector, with a market share of over 25% as on 31 March 2017 amongst ASCB.

Further, there are sectors where your Bank has reduced its exposure, which include telecom where advances declined by 12.23%, roads and ports segment by 15.58%, Engineering sector by 25%, textiles by 15.72% and Iron & Steel by 1.92%, compared to a year ago. Advances to large corporates and SME increased by 3.59% and 3.41% respectively in FY2017, while loans to mid corporates remained flat. Finally, in case of agriculture credit, your Bank continued to surpass the target set by the Government, disbursing ₹ 1,25,270 crore as loans, as against the scheduled target of ₹ 95,168 crore for FY2017.

Branch Network

With the opening of 386 new branches, the branch network of your Bank has reached 17,170 as of March 2017 of which 64% are in rural and semi-urban areas. With an aim for 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 has moved at an accelerated pace in FY2017. 1519 branches were rolled out under CEEP during FY2017 and the total number of branches under CEEP is at 4525 as on March 2017.

In addition, with its extensive global presence, your Bank is a truly International Bank. The number of foreign offices of

your Bank is currently 195, spread across 36 countries in all the continents. During FY2017, your Bank opened two new branches - IBU GIFT City, Gujarat and SBI Yangon, Myanmar (upgraded from Representative Office). Nepal SBI Bank Limited, a subsidiary of SBI has opened three branches. The International Banking arm of your Bank has consistently been a major contributor to the business and profits of your Bank.

Technology

State Bank of India is a strong proponent of leveraging information technology to improve efficiency and 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 any time and from anywhere. Your Bank's technology strategy has evolved in tune with the current consumer trends of social collaboration, mobility, cloud-based platforms and big data analytics.

Digitisation and excellence in operations has been core to your Bank's strategy in providing convenience to customers. It has resulted in a reduction in turnaround time and extended benefits to your Bank's customers.

With over 28 crore State Bank Debit Cards as on 31st March 2017, your Bank continues to lead in Debit Card issuance in the country. A concerted effort by your Bank to empower the customers to enjoy 'Anytime Anywhere Banking' through Debit Cards has resulted in improvement in its market share in Debit Cards spends from 26.29% in March 2016 to 29.23% in March 2017, which is far ahead of any other bank. Various innovations like introduction of sbiINTOUCH contactless Debit Cards, Mumbai Metro Debit Card among others, aggressive marketing campaigns and Debit Card awareness programme, have placed your Bank in the top slot in terms of Debit Card spends.

Your Bank, along with its Associate Banks has one of the largest ATM networks in the world with more than 59,200 ATMs including Kiosks, Cash Deposit Machines and Recyclers as on 31st March 2017. During FY2017, your Bank replaced over

3,000+ old ATMs and Recyclers with new improved machines equipped with the latest technology. Your Bank has so far installed 6,400 Recyclers to provide 24x7 cash withdrawal and deposit facilities. With a 28.44% of market share, State Bank Group's ATM network transacts 54.06% of the country's total ATM transactions. Nearly 77% of the financial transactions of the Bank are routed through Anytime Channels. On an average, over 1 crore transactions per day are routed through our ATM network and ₹ 3,485 crore cash is being dispensed by the Group ATMs on a daily basis.

In sync with the focus of Government of India to create a digital economy, your Bank has strengthened its position as a top merchant acquiring Bank by installation of 2.06 lakh Point of Sale (PoS) terminals during FY2017, thereby taking the count to over 5.09 lakh, up by 69% over last year with a market share of 20.16% of PoS terminals.

Your Bank has also retained its numero uno position in Mobile Banking space, facilitating 44.37% of the total transaction value on Mobile Banking platforms in the country. Your Bank has seen an astronomical growth in transactions put through on its mobile banking platform during FY2017. The volume of transactions grew by over 56% and value of transactions by 507%.

Your Bank has always sought to provide futuristic technology to its customers. One step in this direction was setting up the high-tech, one of its kind, banking outlets - sbiINTOUCH. Your Bank has seven sbiINTOUCH premium outlets and 250 sbiINTOUCH branches equipped with state-of-the-art digital technology covering more than 143 districts across the country.

Launched in November 2016, SBI Pay is an inter-operable mobile-based payment solution, which rides on Unified Payment Interface (UPI) system of NPCI. The app is a payment solution for customers of SBI as well as of other banks. It offers the facility of sending and receiving money based on Virtual Payment Address (VPA) as a unique identifier.

State Bank Buddy - the Mobile Wallet is another choice of payment-channel made available to both, customers and non-customers. Launched in August 2015, the wallet is available in 13 languages. Since launch, Buddy has seen remarkable growth in user-base, especially post demonetisation. The mobile wallet has crossed a user base of 1 crore within 20 months of launch.

In order to expand Bank's reach to the rural populace and enable the benefits of digitisation to the masses, your Bank has rolled out an exclusive offering in 'assisted' mode - State Bank MobiCash. The wallet has been launched in partnership with BSNL and is also available for basic/feature phone users along with smart phone users.

Analytics and Big Data

Your Bank is using analytics extensively to maximise operational efficiency. Predictive analytics and customer segmentation are used with the objective of enhancing customer revenues through cross-selling and up-selling. Risk Analytics is used both for appraisal of fresh applications and for ongoing monitoring of the loan portfolio. Analytics-driven, pre-qualified lending programs launched in 2016 have generated significant business, while reducing cost of acquisition. Improved and timely intelligence delivery to branches/operating functionaries has resulted in quantifiable growth in customer retention and wallet share.

On the Big Data front, in order to cater to the ever-increasing volume and types of data, your Bank is in the process of setting up of a data lake. This will facilitate faster processing of a large volume of structured and unstructured data and performing advanced analytics with a view to gain insights for business decision making and development of new products.

Profitability

Profitability improved during the financial year - both revenue and cost parameters of operating profit improved to result in an operating profit growth of 17.55% YoY. Net profit growth however remained muted at 5.36% YoY due to elevated credit costs and reached ₹ 10,484 crore. This



financial year was also special owing to the impact of demonetisation in Q3 and severe drought conditions in South India. However, as mentioned above, operating profits – the indicator of sustainability of ongoing operations – have fared remarkably well in FY2017. For the financial year as a whole, the operating profits of your Bank crossed the milestone of ₹ 50,000 crore to touch ₹ 50,848 crore.

As mentioned above, the Bank chalked robust performance in non-interest income, profit on sale of investments, forex income and overall reduction in cost to income ratio by 138 bps to 47.75% Net Interest Rate Margin (NIM) of the Bank too continues to remain healthy at 2.84%. The Bank was able to maintain this margin mainly because of 174 bps improvement in CASA ratio to 45.58%.

Asset Quality

The AQR exercise of previous year had resulted in significant rise in Non-Performing Assets (NPA) of the Bank. This increase during FY2017, was much lower from ₹ 98,173 crore to ₹ 1,12,343 crore. The Gross NPA thus stood at 6.90% as on March 2017, up by 40 bps. Despite the rise in Gross NPA, the Net NPA ratio declined by 10 bps to 3.71% YoY. Thus the provisioning coverage ratio increased by 5.26% to 65.95% in FY2017.

The recoveries and upgradations during the year registered a growth of 23.57% over the last year while fresh slippages during FY2017 were 39.13% lower than the previous year.

In terms of segment wise contribution to stressed assets, contributions by SME, Agri, Retail and International Banking registered a net decline while those by large corporates and Mid-corporates increased.

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 (CAR) of the Bank under Basel III stood at 13.11% in March 17 and Tier 1 at 10.35%.

Your Bank utilised various options to increase capital by ₹ 28,828 crore during FY2017. Bank raised fresh AT1 capital to the tune of ₹ 9,100 crore during FY2017. The Government infused ₹ 5,681 crore while the sale of Bank's Non-Core Assets / Strategic Investments added ₹ 2,662 crore. Retained earnings contributed the remaining ₹ 8,379 crore towards the capital augmentation exercise.

Dividend

For the year FY2017, 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 ₹ 1 each.

New Initiatives

During the year 2016-17, several new and innovative initiatives have been taken by your Bank to give additional thrust to each and every business segment like home loans, auto loans, SME, rural business etc. Some of the important initiatives in this regard are as under:

- In order to move towards less cash economy, your Bank has launched merchant payment acceptance solutions like **Bharat QR** and Aadhaar Based Payments viz. **BHIM-Aadhaar-SBI**. In addition to basic acquiring services, the Bank is also providing Value Added Services like **Cash@PoS** for cash dispensation to debit card holders, DCC – (Dynamic Currency Conversion) and EMI on PoS terminals.
- Your Bank has launched the concept of “**SBI Digital Village**” to convert certain identified villages into a cashless eco system. 21 villages were launched on 1st July 2016 across the country under the scheme.
- Your Bank revamped its Mobile Banking App and launched the State Bank Anywhere – Personal in January 2017.
- SBI has partnered with Flipkart to offer its consumers the facility of pre-approved EMI Facility on purchases. Under this partnership, your Bank will provide overdraft facility to pre-qualified set of customers for transacting on Flipkart for a minimum purchase of ₹ 5,000.

- Your Bank also launched ‘**SBI Mingle**’ – the social media banking platform for Facebook and Twitter users. Using SBI Mingle, the Bank's customers can do a host of banking services like checking account balance and requesting mini statements on their Facebook or Twitter accounts.
- In a joint endeavor aimed at being the largest collaboration in the housing space to address housing needs of the Indian population, SBI & Tata Housing have entered into a partnership that offers a unique platform that would enable easier financing and purchase of homes.
- To improve asset quality in SME, under the **project Vivek**, your Bank is revamping its credit underwriting process to move away from the traditional balance sheet based underwriting, and towards revised financial modules and balance sheet, augmented by cash flow recast from multiple sources. Further, with a view to adopt and follow uniform standards of credit dispensation, ensure quality, and preserve Corporate memory, Loan Origination Software (LOS) and Loan Life Cycle Management System (LLMS) have been introduced for small value and high value loans, respectively.
- Above all, Your Bank has introduced one more progressive measure, “Work from Home Policy” to enable the employees who are not able to attend office, to work from home using technology. This move is in line with your Bank's endeavor to implement best practices in all areas of concern.
- Your Bank has extended an additional option to officers up to MMGS-III in the Bank in the form of “Smart Compensation Package” by restructuring their salary/ perquisites in tune with market demand by monetising and clubbing perquisites.
- Though your Bank is known for its iconic ethos and deeply ingrained ethical practices, we have created and put in place a new position of Chief Ethics Officer with a mandate to foster, nurture and integrate this long standing ethos with the organisational fabric in a more structured manner.

ASSOCIATES & SUBSIDIARIES

Your Bank has merged its five associate Banks and Bharatiya Mahila Bank with itself on 1st April 2017. This is the first such large scale consolidation in the Indian Banking industry, which will lead to increased balance sheet size and economies of scale. With this merger, SBI has entered into the league of top 50 global banks with a balance sheet size of ₹ 33 lakh crore, with 24,017 branches and 59,263 ATMs serving over 42 crore customers. The increased balance sheet size will enable your Bank to command better terms in both international and domestic markets. The added branch network, customer base and staff strength will help it expand reach and enable the Bank to rationalise resources and redundancies across the board. Your Bank's endeavour will be to optimise costs and maximise revenues through the merger synergies, leading to significant cost savings and reduction in cost-to-income ratio.

Of the non-banking subsidiaries, SBI Capital Markets Limited posted a PAT of ₹ 252 crore during FY2017. SBI Life witnessed a 43% YoY growth in New Business Premium at ₹ 10,144 crore and Assets Under Management growth of 22% to ₹ 97,737 crore in FY2017. The Company earned a net profit of ₹ 955 crore in FY2017, up from ₹ 861 crore in FY2016. SBI Cards has grown its card base by 15% and posted PAT of ₹ 390 crore for FY2017 as against ₹ 284 crore for FY2016. In terms of spends, market share of the company is 13.1%. SBI Funds Management Private Limited posted a PAT of ₹ 224 crore in FY2017 as against ₹ 165 crore during FY2016, showing growth of 36%. The average Assets Under Management of the company during FY2017 stood at ₹ 1,57,025, showing growth of 47% and it was ranked 5th in the industry in terms of AUM. SBI General Insurance Company Limited has achieved break even in the 6th full year of operation in FY2017 with PAT of ₹ 153 crore.

RECOGNITION & AWARDS

I am proud to share with you the details of some of the awards won by your Bank. Your Bank was selected as India's Best Bank by Financial Express. Business Today also awarded us with the title of Best Bank of the Year (Public Sector). Your Bank has been conferred with the prestigious "Best Trade Finance Bank" award by Global Finance Magazine. As a mark of outstanding performance in the area of training to its employees, your Bank has been declared the Winner of 'Golden Peacock National Training Award' in financial services (Banking) sector. Your Bank was also awarded the Helen Keller Award 2016 for our commitment towards promoting equal employment opportunities for Differently Abled Persons and National Award 2016 for Empowerment of Persons with Different Abilities in the sub-category Best Employer. For our persistent efforts in scaling up technology to improve the overall banking experience, your Bank has been given the IDRBT Banking Technology Excellence Award for Innovative use of technology and Digital Banking, IBA Banking Technology Award for Best Technology Bank, Best Digital & Channel Technology, Best Use of Analytics and Best Financial Inclusion Initiative, Special Recognition Award for winning in all categories in NPCI - National Payments Excellence Award, Netapp Innovation Award 2017 for Innovative Use of Data Storage and Green IT, among others.

Among the Associates, State Bank of Mysore was awarded with Eco-Technology Savvy Bank Award (Emerging Category) by Chamber of Indian Micro, Small and Medium Enterprises. State Bank of Travancore was awarded Skoch Award for segment leadership in MSME and Social Inclusion and Best MSME Bank in SME Excellence Award 2016.

Among the Subsidiaries, SBI Cards bagged five awards at the 25th World HRD Congress, Readers' Digest Most Trusted Brand Award 2016, 'Excellent Compliance Performer-2016' across Indian industries at the Annual Compliance 10/10 Awards among others. SBI Life received 'Life Insurance Company of the Year' and 'Bancassurance Leader Life Insurance

(Large Category)' Awards at the Indian Insurance Awards 2016. It was awarded one of the 'Most Trusted Brand, 2016' for the sixth consecutive year by The Economic Times Brand Equity - Nielsen survey. SBI General won at the India Insurance Awards 2016 in the "Under-served Market Penetration" and in the "Commercial Lines Growth Leadership" categories.

CORPORATE SOCIAL RESPONSIBILITY

Social Responsibility is deeply ingrained in the culture of your Bank. Your Bank has been undertaking social welfare initiatives much before the formal CSR concept became common practice or an industry norm. Your Bank believes that it owes a solemn duty to the less fortunate and underprivileged members of the society to make sustainable social change in their lives. Your Bank has always placed the interest of the common man, especially the most marginalised, at its core. SBI has been a caring and enabling organisation and sustainable business practices are at the heart of our business operations.

The CSR contribution of your Bank for FY2017 was ₹ 109.82 crore. Your Bank's local head offices (Circles) spent ₹ 89.82 crore and the remaining ₹ 20 crore was donated to SBI Foundation. This is the fifth successive year, when your Bank's CSR spend has crossed the mile stone of ₹ 100 crore.

SUSTAINABILITY REPORTING

Your Bank continued to champion "Sustainability" through a multifold approach, which included, inter alia, management of social and environmental risks in strategic decision-making, lending, and developing innovative products and services. Your Bank was the first Public Sector Bank in the country to publish its Sustainability Report for FY2016. Taking the initiative forward, the second report, for FY2017, has been drawn up in accordance with international guidelines set by the Global Reporting Initiative (GRI). These guidelines constitute the most widely used sustainability reporting framework globally.



WAY FORWARD

Asset quality pressures have remained elevated during this year due to tepid growth in the economy and low capex demand. However, the recent Ordinance issued by Govt. of India to resolve the NPA issue by vesting RBI with greater powers is a welcome move in this direction. I expect these issues to be resolved in the next two years, signs of which are evident at this stage.

Your Bank's progress under Basel III transition is on schedule. Your Bank's efforts to control costs have borne fruit with cost to income ratio declining by 138 bps. Your Bank's performance on non-interest income front has been fairly satisfactory and we will continue to diversify our income sources.

On the technology front, demonetisation provided the single largest reason to expand the digital base of the Bank. This is visible in expansion of Banks' PoS

network, more acceptability of sbilNTouch, SBI mobile banking. I expect that this trend will continue and in years to come a substantial part of the banks' business will be migrated to digital channels, thus decongesting bank branches and reducing our overheads. Cyber security has emerged as an important area of concern for us. Although there were no disruptions due to the recent episode of ransomware in India, it is now important that cyber security policy of the Bank becomes proactive instead of reactive. Your Bank will be actively working in this direction for next few years.

From the next financial year the solo results of your Bank will include the assets of Associate banks. The merger has catapulted the Bank into the league of top 50 banks in the world and has increased the market share within the domestic banking space. The size comes with its own advantage. We expect the cost structure of the bank to move favourably primarily due to economies of scale and adopting

uniform best practices. Digital foot print of the Bank will be favourably impacted by the merger and the large customer base will offer immense cross sell opportunities to the Bank.

FY2018 is expected to be challenging, yet more promising than the previous year primarily because policy environment is now more predictable. Political stability has increased and this will provide the basis for more bold reforms in next two years.

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

Yours sincerely,

(Arundhati Bhattacharya)