

Chairman's Message

Our transformation strategy going forward will focus predominantly on five areas: customer service, corporate credit revamp, digitisation of banking operations, synergy between subsidiaries and human resource.



Dear Shareholders,

It gives me great pleasure to place before you the highlights of your Bank's performance during the financial year 2018-19. Details of the achievements and initiatives taken by your Bank are provided in the enclosed Annual Report for the year 2018-19.

ECONOMIC OVERVIEW

After picking up pace in 2017, global growth moderated to 3.6% in 2018 with both the developed and the emerging markets witnessing slow growth. Fiscal support in the form of US\$1.5 trillion tax cuts and enhanced Government spending enabled the US economy to advance strongly. However, the protectionist policies by the US, uncertainty over Brexit and slowing GDP growth in other advanced economies including Euro Zone, Japan, the UK, Canada accentuated the slowdown. Meanwhile continued easing in China's GDP growth also pulled down overall growth of the developing world.

The financial markets also witnessed increased volatility in 2018. Oil prices remained volatile throughout the year. However, with supply cuts by OPEC and sanctions by the US on Venezuela and Iran, crude prices are now showing an upward bias. Financial volatility that eased somewhat after the adoption of dovish stance by the Fed has increased recently amidst enhanced trade tensions between the US and China. Looking ahead, global economic growth is expected to decelerate to around 3% in 2019.

Against this backdrop, India is still a beacon of growth. Structural changes such as IBC and stabilisation of GST are expected to provide impetus to economic activity. Low inflation, accommodative monetary policy and Government income support to farmers are also likely to support domestic economic activity. However, prolonged US-China trade war and rise in oil prices remain the key risks to growth momentum.

YOUR BANK'S PERFORMANCE

DEPOSITS GROWTH

In the year FY19, your bank's total deposits grew by 7.58% to ₹29,11,386 crore from the previous year's level of ₹27,06,343 crore. The domestic deposits grew by 8.27%, while there was a contraction in deposits of foreign offices by 9.17%, due to the formation of subsidiary State Bank of India (UK) Ltd and transfer of the Bank's existing business to the same. The growth in domestic deposits was mainly due to robust growth in CASA deposits, which grew by 8.42%. The Bank's overall CASA ratio improved from 45.68% in FY18 to 45.74% in FY19.

CREDIT GROWTH

After a significantly low credit growth in the last couple of years, the banking industry's credit growth has picked up in FY19, due to a strong revival in credit to corporate sector driven largely by Government investment and continued demand from personal loan segment. In line with the ASCBs double digit credit growth, your bank's domestic advances grew by 13.99% to ₹19,90,746 crore, while the foreign offices advances grew by 0.23% to ₹3,02,708 crore. Therefore, the gross advances of your Bank grew by 11.96% to the level of ₹22,93,454 crore by March 2019 from the previous year level of ₹20,48,387 crore. The credit to corporates increased by 14.83% to ₹8,51,638 crore in FY19 and major share of the credit went into sectors such as Infrastructure (Power, Roads & Ports) and Services especially NBFCs. The corporate and NBFC credit growth was mostly driven by either PSUs/Govt. sector or the Govt. undertakings.

With the revival of credit to corporates, the share of Retail segment (Personal, SME & Agri) in the domestic loan book declined marginally to 57.22% from 57.53% last year. Much of the growth in domestic advances came from Personal segment including Home Loans. Overall, the Personal loans showed a robust growth of 18.52% in FY2019, which is in line with the Bank's strategy towards this segment. Within retail, Home loans and Xpress credit grew substantially by 17.41% to ₹4,00,377 crore and 40.79% to ₹1,04,906 crore respectively in FY19. The growth in Xpress credit is mainly driven by our YONO and INB platforms.

Your Bank's home loan portfolio now constitutes around 62% of the Personal loans. Additionally, your Bank continues to be the largest home loan provider in the banking sector, with a market share of 34.51% as on 31st March 2019 amongst ASCBs.

INVESTMENTS

Your Bank's investment portfolio has declined to ₹9,78,124 crore (domestic portfolio was ₹9,26,651 crore and foreign portfolio was ₹51,473 crore) in FY19 compared to ₹10,73,097 crore in FY18, due to pick up in corporate lending coupled with calibration of term deposit rates to ensure a more optimal Asset Liability structure.

CUSTOMER CONVENIENCE

With a view to build and ensure customer convenience at all times, the Bank has created a large network of touch points. The Bank has 57,467 operating BCs, over 22,000 branches and 58,415 ATMs including 7,658 Automated Deposit & Withdrawal Machines (ADWMs). More than 36% of the financial transactions of your Bank are routed through ATMs/ADWMs. On an average, over 1.4 crore transactions per day are routed through your Bank's ATM network.

Your Bank's first global footprint was with the branch of Bank of Madras in Colombo, Sri Lanka in July, 1864 (first amongst Indian banks). With presence across all time zones through 208 offices in 34 countries, State Bank of India has gradually spread its wings across the globe and has become a pioneer of International Banking among the Indian PSBs. During FY2019, your Bank has endeavoured to consolidate and strengthen its overseas operations and in line with our growth strategy in SAARC region, Nepal SBI Bank Limited, a subsidiary of State Bank of India has opened 10 offices. Furthermore, 12 retail branches of UK were carved out from your Bank's UK operations to form the overseas Subsidiary-State Bank of India (UK) Limited.

TECHNOLOGY AND INNOVATION

A steady stream of technology driven innovations, necessitated by changing customer preferences, is transforming the retail banking landscape. State Bank of India has a multi-channel delivery model, which allows it to offer its customers a choice to carry out transactions through any channel, at any time and at any place. In FY2018-19, your Bank has increased its offerings across various channels - digital, mobile, internet, social media, along with additions to its branches, ATMs and Customer Service Points.

The digital offering, YONO is expected to bring a paradigm shift in terms of customer convenience through more efficient deliveries at lower costs and greater reach for the Bank. The digital application is steadily strengthening in terms of reach as well as value. YONO caters to various banking & financial services as well as lifestyle requirements and delivers world class customer experience through distinctive, omni-channel and seamless customer journeys. YONO has achieved 2 crore downloads and around 73.49 lakh registered users. Over 10 lakh users log in daily and around 25,000 digital accounts are opened per day which is over 75% of all eligible accounts being opened by the bank with 30-40% higher balances than regular accounts.

With 29.67 crore active Debit Cards as of March 2019, your Bank continues to lead in Debit Card issuance in the country. Additionally, your Bank has launched various innovations and functionalities around Debit Cards such as Contactless Debit Cards, Bharat QR, Samsung Pay, Visa Checkout and Personalized Image Debit Card "My Card".

Your Bank has set up over 2,200 e-Corners across the country where customers can avail the entire gamut of services through ATMs, ADWMs, SWAYAMs, Check deposit Kiosk and online banking kiosk.

To ensure safety of ATMs and customers, coverage under electronic surveillance is being enhanced. Your Bank has covered approximately 13,000 ATMs under e-surveillance as on 31st March 2019, while process for 15,000 ATM sites is slated to commence shortly.

Your Bank has installed around 3,200 SWAYAMs (Barcode based Passbook Printing Kiosks) during FY2019, taking the total number of SWAYAMs deployed to 17,400 units. Your Bank has also deployed "Through the Wall" SWAYAMs, offering extended working hours for printing. More than 3.45 crore transactions are recorded at these kiosks per month.

Green Channel Counters (GCC) installed at all retail branches extend services such as cash withdrawal, cash deposit, funds transfer within State Bank of India, in addition to balance enquiry and Mini Statement. On an average 8.20 lakh transactions are being routed through GCC per day.

Your Bank's Unified Payments Interface (UPI) based App is an interoperable offering, which provides the convenience of transferring funds across different Bank accounts using Virtual Payment Address (VPA), Bank Account Number + IFSC and scanning a QR Code. Over 553 lakh users have registered and are availing UPI services, resulting in more than 129 crore transactions, amounting to more than ₹2.96 lakh crore, processed through the SBI UPI channel during FY2018-19.

With the introduction of new features and several add-ons provided on the 'Onlinesbi' to enhance customer comfort and experience, the platform handled transaction volume exceeding 162 crore with transaction value of nearly ₹127.78 lakh crore, recording a quantum jump over the last year. This reflects the growing customer confidence in our offerings and deliverables.

A unique facility 'YONO-Cash' has been made available to our esteemed customers for card-less cash withdrawal through ATM using YONO app.

PROFITABILITY

The FY2019 has been a year of reversal of the negative trend and has brought about significant improvement on asset quality front, provision coverage, NIM and yield on advances. This coupled with reduction in cost of deposits and overall control on the overheads has been a significant improvement over the previous years. The profit of the Bank could have been much higher but for the provisions, mark to market losses on Government securities leading to fall in trading income and pension and enhanced provision on gratuity payable to employees.

The Net Interest Income of the bank stood at ₹88,349 crore registering a healthy growth of 18.03%. The growth is owing to focused efforts in retail credit, corporate credit as well as control on slippages, thereby resulting in good growth under interest income and a simultaneous control on interest expenses by CASA oriented deposit accretion. The Operating Profit of the Bank stood at ₹55,436 crore. The Bank made a standalone profit of ₹862 crore and consolidated profit of ₹2,300 crore.

During the year, the domestic bond yields have seen volatile movements due to unpredictable crude oil prices, US sanctions on Iran, US dollar movements, the trade tensions between US and China and other geo-political risks which captured the headlines for major part of the year. The relatively high domestic interest rates also added to the hardening of G-Sec yields. All these factors led to a fall in trading income and MTM losses eventually impacting the Non-interest income. The Recovery in Written-Off Accounts, however, registered a robust growth of 57% and the trend is expected to continue with better recoveries in FY2019-20.

On the cost front, the Bank has been very conscious in controlling the overheads and strong awareness has been created across the branches and offices of the Bank. As a result of the ongoing measures of cost optimisation, the increase in overheads was restricted to below 7%. Staff expenses is another major head, which recorded an increase of 23.74% during FY19, but that is on account of higher growth in largely one time provisions made for employees.

ASSET QUALITY

Steep growth in provisioning due to rise in stressed assets in FY18 had pushed the profitability of the Bank into negative territory. However, concerted efforts toward recovery in stressed assets and strict monitoring were undertaken in FY19. While the gross NPA ratio of the bank fell to 7.53% in March 2019 from 10.91% the previous year, the net NPA ratio of the Bank also declined by 272 bps to 3.01% in March 2019.

The all-round effort in managing stressed accounts in FY19 resulted in the fresh slippages being contained to ₹32,738 crore, a reduction of 65.5% from previous year through strict monitoring. Recoveries and upgrades during FY19 more than doubled from last year's level of ₹14,530 crore to ₹31,512 crore in March 2019. NPA ratios declined in all segments, with corporate segment registering the steepest decline. The NPA in corporate segment declined from 21.92% in FY18 to 13.62% in FY19.

Despite the ups and downs, the average recovery rate in stressed accounts under the NCLT route was in excess of 60%.

CAPITAL STRUCTURE

The capital adequacy of the Bank improved during the financial year on the back of better Capital planning, including raising of additional Tier I as well as Tier II capital, some amount of internal resource generation and containment of risk in trading and banking books. Accordingly, the Credit Risk Weighted Assets (RWA) on Advances to Gross Advances ratio of the Bank declined to 56.60% in March 2019 from 60.66% in the previous year. The Total RWA to Total Asset ratio also declined by 2.34% to 52.37% in March 2019. The modified duration of the AFS portfolio was also reduced to 2.62 years in line with evolving risk to conserve capital.

The Bank raised AT1 Bonds to the tune of ₹7,317 crore in FY19. This was further supplemented by raising of ₹4,116 crore of Tier II Bonds.

The combined impact of above efforts saw the capital adequacy position of the Bank improving from 12.60% in March last year to 12.72% in March 2019. The Tier I capital and AT1 capital ratios put together increased by 29 bps to 10.65%. With satisfactory recoveries under NPA accounts lined up going forward and slowdown in fresh slippages, internal accruals are expected to support normal credit growth during FY20. However, Bank retains the option to raise capital at an opportune time to build a suitable buffer to support higher than expected credit growth as well as risk absorption capacity.

STRATEGIC INITIATIVES

During FY19, your Bank has undertaken certain strategic initiatives to give an additional thrust to each and every business segment of the Bank. Some of the important initiatives are as under:

- Your Bank has conducted a mass communication program, Naya Disha Phase 1, for all the employees to improve the customer centric approach in the Bank. The Bank has also revised the assessment of customer satisfaction measures, redesigned 'customer service index' with weightage to critical parameters.
- To revamp the corporate credit structure and systems, the Bank has strengthened the credit risk process and credit review process independent of the Appraisal/Sanction process. The credit risk function has been strengthened by onboarding sector specialists and improved due diligence.
- In HR, the Bank has taken substantial efforts in identifying potential leaders and developing them through customized training programs to create leadership pipeline. With this, your Bank was ranked top among the PSBs in EASE Index for "Developing Personnel for Brand PSBs". Additionally, your Bank's performance management system, Career Development System (CDS) has now made 95% of the roles measurable.
- To increase the reach of its subsidiaries, your Bank is at the forefront in driving Cross Sell Products of the subsidiaries. The Bank expects cross selling income to grow more than 50% over the medium term, for which, your Bank has initiated a CRM Platform for SBG entities (Project IMPACT) to leverage data analytics for lead generation by leveraging the technology enablers in the bank. The Bank is also training more and more officials/employees and encouraging them to acquire the professional certification to cross sell products.
- Your Bank has introduced niche products such as 'SBI Smart Home Top-Up' for existing Home loan customers, SBI 'Wealth' for HNI/High-end customers and Flexible Margin Schemes for real-estate developers.
- Your Bank has started an IFSC Banking Unit (IBU) at International Financial Services Centre (IFSC) located at the GIFT-SEZ, Gandhinagar, Gujarat. This centre aims to provide suitable regulatory regime and create a business environment to attract talent and capital.
- As a responsible corporate citizen, your Bank has taken several initiatives for a better and cleaner environment. Under the Green initiative and cleanliness drive, your Bank has discontinued printing of transaction slips for 43 types of unsuccessful transactions. It has installed solar panels on around 2,400 ATM sites. Your Bank intends to become a plastic free organisation by 2nd October 2019 as part of Bank's sustainability commitment. This major initiative by your Bank is in sync with the Honourable Prime Minister's Swachh Bharat Abhiyan and the national commitment to abolish single use plastic by the year 2022.

SUBSIDIARIES

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

SBI Capital Markets Limited posted a PAT of ₹168.19 crore on a standalone basis for FY19 against ₹236.26 crore in FY18 whereas on a consolidated basis it has posted a profit of ₹236.73 crore as against ₹323.53 crore in the previous year. SBICAP Securities Limited, a subsidiary of SBI Capital Markets Limited has booked gross revenue of ₹408.36 crore during FY19 as against ₹357.56 crore in FY18.

SBI Life Insurance has continued to maintain the leadership position amongst private players in the number of policies issued, which reflects mass coverage and strong market acceptance across geographies amongst life insurers. The Company recorded PAT of ₹1,327 crore in FY19 against ₹1,150 crore in FY18.

SBI Cards and Payment Services Private Limited delivered PAT of ₹788 crore for FY19 vis-à-vis ₹581 crore in FY2018. The company is positioned at Rank 2 with 17.2% Spends share and 17.4% Cards base. SBI Funds Management Private Limited, the Asset Management Company (AMC) of SBI Mutual Fund, is one of the fastest growing AMCs with growth of 7.36% against the industry growth of 3.66% in FY19. It has posted PAT of ₹428 crore during FY19 against PAT of ₹336 crore during FY18.

SBI General Insurance Company Limited (SBIGC) recorded 32.83% growth in Gross Written Premium YoY against an industry growth of 12.95%. The PAT has increased to ₹334 crore for FY2019 vis-à-vis ₹265 crore (excluding onetime reinsurance income from Fire business) in FY2018. The Company's market ranking stands 13th in the industry and 8th among the private players in FY2019.

SBI Global Factors Private Limited, a leading provider of factoring services for domestic and international trade, displayed turnover of ₹4,387 crore for FY19 as compared to turnover of ₹3,555 crore in FY18. SBI Pension Funds Private Ltd, one of the Pension Fund Managers (PFM) to manage the pension corpus, maintained lead position amongst PFM in terms of Assets Under Management (AUM) in both Government and Private Sectors. The total AUM of the company as on 31 March 2019 was ₹1,21,959 crore (YoY growth of 37%) against ₹89,283 crore on 31 March, 2018.

RECOGNITION & AWARDS

Your Bank has over the years garnered numerous awards and accolades and this year was no different. Your Bank was rated the Best Transaction Bank in India by "The Asian Banker" for the second time in a row. Your Bank was awarded as "The Best Trade Finance Bank (India)-2019" for the eighth consecutive year by Global Finance Magazine. Your Bank received "Green Bond Pioneer Award" for being the largest new emerging markets Certified Climate Bond issuer of 2018 by Climate Bond Initiative. Your Bank was also awarded 'Best MSME Bank Award-Large bank' by CIMSME. YONO, our digital initiative, won the "Mobile Banking Initiative of the Year - India" at the Asian Banking and Finance Retail Banking Awards, Singapore and ET BFSI Innovation Awards among many others. At the Asian Banker Financial Technology Innovation Awards 2018 SBI received awards in a number of categories including The Risk Data and Analytics Technology Implementation of the Year for OFSAA.

Among the subsidiaries, SBI Cards won the 'Excellent Compliance Performer Award 2018' at the coveted Compliance 10/10 awards. SBI General has been conferred the title "General Insurance Company of the Year" at the India Insurance Summit and Awards 2019, which is the biggest strategic business summit for the entire insurance industry in India.

CORPORATE SOCIAL RESPONSIBILITY

Social Responsibility is deeply ingrained in the culture of your Bank. Consequently, Your Bank has been undertaking social welfare initiatives much before the formal CSR concept was coined. The 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. State Bank of India always places the interest of the common man, especially the most marginalised, at its core. In addition to this, the Bank earmarks 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 millions from underserved communities. The Bank is committed towards the economic and social wellbeing of the downtrodden.

During the year, the Bank has made donation of an amount of ₹5 Crore towards Chief Minister Distress Relief fund, Kerala for floods. Apart from that, Bank has also donated an amount of ₹1.24 crore under CSR mainly towards Healthcare and Sanitation.

ENVIRONMENT AND SUSTAINABILITY

State Bank of India is committed towards environment protection and to reduce its carbon footprints. Hence, your Bank prioritises responsible interaction with environment to avoid depletion and degeneration of natural resources to maintain its long term quality. Some of these initiatives are:

Waste to gold: An initiative to motivate and develop the skills of vulnerable youth to address waste management in the city; and develop small sustainable businesses for their livelihood.

SBI Corbett: An initiative to provide villages a sustainable waste management system and conduct trainings of SHG Workers to spread awareness in nearby schools and hotels.

Swachh Belur Math: SBI Foundation supported Ramkrishna Mission for construction of 201 toilets at new Pilgrims Abode in Belur Math that will serve 13 lakh visitors each year by contributing ₹1.67 crore to this project.

Beat Plastic Pollution: State Bank of India's Local Head Office (LHO) Mumbai organised Cleanliness Drive with the theme 'Beat Plastic Pollution', on the eve of "World Environment Day" at Dadar Beach. More than 125 staff members actively participated collecting 2 tractor load of garbage.

WAY FORWARD

FY20, in all respects, will be a turning point for your Bank. Not only will the financials improve going forward, efforts will also be directed to achieve a more sustainable mix of business, both domestically and in overseas operations.

Taking cues from the last year, the Bank has set the goal to achieve a healthy credit growth of 10-12% in FY2020. To an extent the credit revival and recoveries in FY19 have already set the tone and the Bank is confident of achieving the target set for FY20. It was envisaged last year that growth in business will be achieved by portfolio reordering that will reduce the Credit RWA to Total advances ratio and internal reorganisation of the corporate banking. My message this year highlights the progress in the revival strategy.

However, a sustainable recovery is not just a mechanical arithmetic but it also requires deep structural transformation and strategic shifts in portfolio. Such an exercise should ultimately improve the RoA, minimise asset liability mismatches and reduce the payback period of our investments. Accordingly, our transformation strategy going forward will continue to focus predominantly on five areas: Customer Service, Corporate Credit Revamp, Digitisation of Banking operations, Synergy between subsidiaries and Development of our human resource.

The Bank already has a large customer base in every business segment. The benefits of retaining the existing customer base far outweigh the cost of acquiring new. Accordingly, in the coming year the Bank will roll out revised customer satisfaction measures to gauge customer satisfaction. Our unique training programme - 'Nayi Disha- Phase 2', will be focusing on a customer centric approach for employees, thus linking our human resource training with customer service.

The Corporate Credit area had attracted considerable attention in the last two years. Revamping of Corporate Credit structure and system within the Bank on lines that will widen the universe of clients and focus on new segments has already been initiated and the results are visible. Strengthening of credit processes and increased product penetration across high priority relationships has been and will be our guiding principle going forward. Deficiencies in human resource, if any, will be mitigated and human resources will be strengthened by on-boarding sector specialists.

The use of technology in delivering banking services has become more broad-based. The Bank is already in leadership position in digital channels, ATMs and mobile banking. Asset and liability side product offerings through the YONO platform will be scaled up. Encouraged by successful implementation of e-DFS, our Dealer Finance Scheme, we shall try more technology enabled products for our esteemed corporate clients.

Our subsidiaries have leading market share in their respective products and services. Going forward your Bank will explore technology options to leverage upon the synergies with subsidiaries for distribution of Life and General Insurance, Mutual Funds, Credit Card and Demat Account ensuring instant Customer satisfaction.

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.

"Alone we can do so little; together we can do so much".
-Hellen Keller

Yours Sincerely,

(Rajnish Kumar)