Annual Report 2011 - 2012

SBT

STATE BANK OF TRAVANCORE

JOURNEY THROUGH THE DECADES...

(Rs. in crore)

	December 1962	December 1972	December 1982	March 1992	March 2002	March 2012
1. Paid up Capital & Reserves	1.36	1.58	3.34	40.37	610.14	3866.16
2. Deposits	19	76	609	2736	13460	71470
3. Advances	7	54	357	1496	7436	55346
4. Gross Investment	7	21	192	969	6388	22473
5. Priority Sector Lendings	....	13	130	616	2260	20287
6. Export Finance	....	4	12	80	396	1506
7. Net Profit	0.09	0.08	0.28	5.09	120.93	510.46
8. No. of Branches	94	253	496	614	674	879
9. Number of Employees	1570	3866	8884	12258	12137	12597

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STATE BANK OF TRAVANCORE
(Associate of the State Bank of India)
HEAD OFFICE: THIRUVANANTHAPURAM

NOTICE

The Fifty Second Annual General Meeting of the Shareholders of the State Bank of Travancore will be held in the A.K.G. Memorial Hall, Gas House Junction, Palayam, Thiruvananthapuram-695 034, on Saturday, the 26th May, 2012 at 3.30 P.M (Standard Time) to transact the following business:

"To discuss and adopt the Balance Sheet and Profit and Loss Account of the Bank made upto the 31st March 2012, the report of the Board of Directors and the Auditors' Report on the Balance Sheet and Accounts."

Thiruvananthapuram
April 23, 2012.

P Nanda Kumaran
Managing Director
(Chief Executive Officer)

BOARD OF DIRECTORS

Chairman under Clause (a) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri Pratip Chaudhuri

Managing Director under Clause (aa) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959. **Shri P Nanda Kumaran**

Director under Clause (b) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Dr J Sadakkadulla

Director under Clause (c) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri Shyamal Acharya

Director under Clause (c) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri A K Deb

Director under Clause (c) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri B Ramesh Babu

Director under Clause (c) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri C N Venugopalan

Director under Clause (ca) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri K Muraleedharan Pillai

Director under Clause (cb) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri C Rajkumar

Director under Clause (d) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri Gyan Chand Pipara

Director under Clause (d) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri T Balakrishnan

Director under Clause (d) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri K T Rajagopalan

Director under Clause (e) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri P Vinayagam

MANAGEMENT COMMITTEE

Shri P Nanda Kumaran
Managing Director
(Chief Executive Officer)

Shri M C Jacob
Chief General Manager
(Chief Operating Officer)

Shri Sanjay K Singh
General Manager & Group Executive (MSME) &
Chief Risk Officer

Shri Sajeev Krishnan
General Manager (Operations) &
Corporate Development Officer

Shri V Kannan Kutty
General Manager (Tech & Business Processes)

Shri Ravi Jha
General Manager (Try) & Chief Financial Officer

Shri Santanu Mukherjee
General Manager & Group Executive (Corporate Bkg)

Shri S Harikrishnan
General Manager & Chief Vigilance Officer

Report of the Board of Directors to the State Bank of India, the Reserve Bank of India and the Central Government in terms of Section 43(1) of State Bank of India (Subsidiary Banks) Act, 1959

Period covered by the Report:
1st April 2011 to 31st March 2012

1. MANAGEMENT DISCUSSIONS & ANALYSIS

1.1 Global Economy

The developments over the last year in major economies of the world have not been encouraging though the concerns about a crisis have abated somewhat since dawn of 2012. There is an apprehension that the process of global economic recovery that began after the financial crisis of 2008 is beginning to stall and the sovereign debt crisis in the euro zone area may persist for a while. The US economy has shown some improvement but economic growth remains sluggish, despite extensive use of both fiscal and monetary policy tools. Unemployment situation in advanced economies in general, and the peripheral economies of the euro zone in particular, which had deteriorated in the wake of global crisis has not improved. At this juncture, in the short run, the global economy is being buffeted by multiple shocks emanating from various sources, economic, social and geopolitical. A worsening of the conditions in the Middle-East and North Africa could derail global growth. The lower global growth forecast by IMF for most countries in 2012 perhaps reflects the repeated bouts of uncertainty arising from these diverse sets of factors. However, the global financial crisis is no longer the major force dictating the pace of economic activity in the developing countries. The BRICS nations with China in the lead role are gaining decisive force in the global economic arena. The global growth for 2012 and 2013 is expected to be lower than earlier anticipated since the emerging and developing economies are also showing signs of slowdown in growth.

1.2 National Economy

Growth in India is moderating more than that expected earlier. Though inflation has moderated in recent months it remains sticky and above the tolerance level amidst concerns of fiscal deficit, current account deficits etc. The Indian economy is estimated to grow around seven per cent in 2011-12 in terms of gross domestic product. This follows a growth of 8.4 per cent in 2010-11. This is mainly due to weakening industrial growth in a milieu of persistent inflationary pressures and deterioration in the global economic situation. The factors leading to the global economic slow down such as the crisis in the euro-zone area and near recessionary conditions prevailing in Europe, slow growth in many industrialized countries, hardening of international prices of crude oil, etc. will have its effect on India too though with lesser impact. Monetary policy tightening to control inflation and inflationary expectations typically operates through a compression in aggregate demand and this resulted in slowing down of investment and growth, particularly in the industrial sector, in the Indian economy. However, relative to many other economies in the world, growth in India is among the highest. There are some signs that the slow down in economic activity has bottomed out and a gradual upswing is expected in 2012-13. The Government proposals to bring down the fiscal deficit and the current account deficit; the financial markets becoming more matured, more diverse, much deeper with the resilience to absorb shocks; the regulatory systems and crisis response mechanism turning more robust and sophisticated may contribute to the expected growth momentum.The global economic and financial conditions were likely to remain under pressure during the year and as a result, the economy was estimated to grow in the range of 7.5 per cent to 8 per cent in 2012-13.

1.3 Kerala Economy

Kerala has become one of the fastest growing state economies in the country with the per capita state income higher than the per capita national income. The prime driver of economy still is the remittances from abroad by lakhs of Non Resident Keralites. Kerala economy is primarily agrarian in nature with a low base in food production. The State faces serious challenges in retaining farming area and improving production and productivity of important crops. Kerala's agricultural economy has been undergoing a structural transformation since the mid-seventies by switching over a large proportion of its traditional crop area devoted to subsistence crop like rice and tapioca to more remunerative cash crops. The area under paddy, tapioca, coconut and cashew cultivation in the State has been declining consistently over the last several years.

Kerala, located on the south western tip of India, enjoys unique geographical features that have made it one of the most sought-after tourist destinations in the world. Fondly referred to as 'God's Own Country', the State was selected by the National Geographic Traveller as one of the 50 destinations of a lifetime and one of the thirteen paradises in the world. An equitable climate, serene beaches, tranquil stretches of palm fringed backwaters, lush hill stations; exotic wildlife, monuments, art forms and festivals give it a distinctive charm. Kerala has an active tourism industry and is accepted as one among the most suited industry for the State.

It has been a satisfactory year for industry and allied sectors in Kerala. The Micro, Small and Medium Enterprises (MSMEs) sector played a vital role in employment generation at low capital cost, upholding entrepreneurial spirit and innovation in the State. Kerala is quite advanced in terms of Human Development Index and life standard. Kerala, the most literate state in the country, enjoys a unique position in the health map of India. The health indicators in the State are at par with the western world with the lowest infant mortality, maternal mortality rates and the highest life expectancy in the country.

The service sector of Kerala is booming with financial companies, real estate agencies, mortgage companies, consultancy services, insurance companies, information technology and tourism industry. The upcoming Metro Rail Project at Ernakulam and the Mono Rail Projects at Thiruvananthapuram, Kozhikode, the Vizhinjam Sea Port, the proposed 'Fast Track Rail Corridor' Project, the Greenfield airport project - 'Kannur International Airport', the Railway Coach Factory at Kanjikode (Palakkad), the Vallarpadam International Container Transhipment Terminal, the LNG Project and the Smart City Project at Kochi, the Cyber Park at Kozhikode and elsewhere are sure to bring in the much awaited sheen and momentum to the State's economy.

1.4 Banking Environment

Indian banking sector demonstrated strong resilience during the global financial crisis and was able to maintain profitability, with asset quality remaining relatively unaffected. In India, reforms have continued with a view to building a robust and resilient financial system. More stringent capital and liquidity measures for commercial banks have been implemented and steps have been taken to build buffers in the form of provisions. RBI has initiated the preliminary steps for implementation of the Basel III norms embedded with provisions and guidelines for higher capital adequacy norms for adoption and implementation by Banks in India. RBI's decision to cut cash reserve ratio twice in the recent past to ease tightness in liquidity demonstrates the timely surveillance exercised by the Regulator in this regard. The key focus areas for Indian Banks include liquidity management; gainful deployment of funds; availability of cheaper technology to serve thinly populated unbanked areas; grooming suitable replacement for large number of the experienced manpower bidding adieu to the banking industry; IT security; advanced risk management approaches; and introduction of innovative products. The Indian Banking sector is continuing to grow with rapid transformation, with almost all the Banks having migrated to Centralised Core Banking Environment, supported by technology enabled products. The revolution in information technology is forcing banks to redefine the existing business practices. The need of the hour is to think to develop technologies beyond core banking.

India has the highest growth in young population who want a great banking service, tailored to their needs and in a timeframe that works. The next generation wants to get banking facility “here, now and at an arm's length” in a manner that is simpler, convenient and easy to access. The next generation banking has to provide customer-centric features, giving users an extremely personalized experience while at the same time providing increased intelligence and automation to help banks sell appropriate products and services to their customers. Banks are gradually moving towards a right mix of assisted and self-serviced channels to provide a rich unified and consistent banking experience. Bright and clean branches, customer friendly business hours and short queues have become the key differentiators. Green Channel Counters are the latest innovations in the series for Banks to serve its customers in an eco friendly atmosphere. Regulatory changes have opened up newer opportunities for Banks in areas such as financial inclusion, mobile banking and rural banking. The penetration of banks in rural areas has increased manifold due to the progress made under Financial Inclusion Plans of banks.

1.5 ASCB Performance

The overall performance of the Banking system was somewhat similar to the trend of the previous year with Credit growing faster than the Deposits. Aggregate Deposits of All Scheduled Commercial Banks grew by Rs. 9,04,510 crore (17.40%) on Year on Year (YoY) basis to reach Rs. 61,12,480 crore as at the last Friday of March 2012. The Gross Advances grew by Rs 7,62,710 crore (19.30%) on YoY basis to touch Rs.47,04,790 crore. Food credit increased by 24.12% to Rs. 79,790 crore. Non-Food credit grew by 19.27% and reached the level of Rs. 46,25,000 crore. The investment portfolios of banks moved up by 16.20% (compared to the growth of 8.40% during the previous year) to reach a level of Rs.17,44,960 crore.

1.6 Regulatory Measures and Monetary Policy

The year 2011-12 witnessed a series of monetary measures initiated by Reserve Bank of India to contain the rising inflation. Annual Policy Statement of RBI issued on 3rd May 2011 had envisaged a monetary policy trajectory with the avowed objective of containing the inflationary pressures even at the cost of some growth in the short-run since high inflation is considered inimical to sustained growth. The calibrated increase in repo rates in the monetary policy pronouncements thereafter is meant primarily to bring down the inflationary pressures.

RBI has decided that henceforth there will be only one independently varying policy rate - the Repo rate. Reverse Repo rate will be 100 basis points below the Repo rate. A new Marginal Standing Facility (MSF) was introduced with effect from 9th May 2011, up to 1% of NDTL, whose rate is 1% above Repo Rate.

In the Second Quarter Review of the Monetary Policy on 25th October 2011, RBI deregulated the Savings Bank Interest Rate with immediate effect. Further, to encourage capital flows of a more stable nature and to provide greater flexibility to banks in mobilizing non-resident deposits in the prevailing market conditions, RBI deregulated the interest rates on Non-Resident (External) Rupee (NRE) Deposits and Ordinary Non-Resident (NRO) Accounts w.e.f 16th December 2011.

RBI raised the Bank Rate by 350 basis points from 6.00 per cent per annum to 9.50 per cent per annum with effect from the close of business on 13th February 2012. This is one-time technical adjustment to align the Bank Rate with the MSF rate rather than a change in the monetary policy stance.

Domestic scheduled commercial banks (other than RRBs) are permitted to open Branches, Administrative Offices and Central Processing Centres / Service Branches in Tier 2 to Tier 6 centres (with population upto 99,999 as per Census 2001) without the need to take permission from the Reserve Bank in each case, subject to reporting. Opening of branches/offices by domestic scheduled commercial banks (other than RRBs) in Tier 1 centres (centres with population of 100,000 and above as per Census 2001) will continue to require prior permission of Reserve Bank of India.

The following are the other important regulatory and development initiatives by the Reserve Bank of India during the financial year.

- The Repo rate was raised from 6.75 % to 8.50 % in the Monetary Policy Reviews during the financial year.
- RBI has reduced the Cash Reserve Ratio (CRR) of scheduled banks from 6.0 per cent to 4.75 per cent of their Net Demand and Time Liabilities (NDTL) during the financial year.
- Enhanced Rates of Provisioning for Non-Performing Assets as under:
  - (a) Sub-standard will attract a provision of 15 per cent as against the existing 10 per cent.
  - (b) Unsecured exposures of sub-standard assets will attract an additional provision of 10 per cent [i.e. 25%].
  - (c) DA1, DA2 to have 5%/10% higher provision at 25% /40%.
  - (d) Higher Standard Asset Provision for restructured Accounts.
- Investment in liquid schemes of Debt oriented MFs by banks capped at 10 per cent of their net worth as on 31st March of the previous year.
- The existing scheme of interest subvention of 1 per cent on housing loans is extended to housing loans upto Rs.15 lakh where the cost of the house does not exceed Rs.25 lakh from the present limit of Rs.10 lakh and Rs.20 lakh respectively.
- The limit for Housing Loans sanctioned to individuals for purchase / construction of dwelling unit per family, (excluding loans granted by banks to their own employees), eligible for classification under priority sector, is enhanced from Rs.20 lakh to Rs.25 lakh.
- RBI has stated that the UIDAI can be accepted as an officially valid document for opening bank accounts and banks must satisfy themselves of the current address of the customer by obtaining required proof

of the same as per extant instructions and other KYC guidelines.

- Authorised Dealer banks in India may accept FCNR (B) deposits in any permitted currency. 'Permitted currency' for this purpose would mean a foreign currency which is freely convertible as defined in terms of Regulation 2(v) of FEMA 14/2000-RB dated 3rd May 2000, as amended from time to time.
- AD Category-I banks are permitted to allow exporters to receive advance payment for export of goods which would take more than one year to manufacture and ship and where the 'export agreement' provides for shipment of goods extending beyond the period of one year from the date of receipt of advance payment subject to certain conditions.
- The validity of cheque/drafts has been limited to three months from the date of the instrument.
- RBI has issued the Draft Guidelines of the Basel III Capital Regulations for Implementation in India, for Banks to offer their comments / suggestions on the various proposals enumerated therein.

2. The Bank's Operations and Performance

2.1 Total Business

The gross business of the Bank crossed the milestone of Rupees One Lakh Twenty Five Thousand crore. The total business of the Bank stood at Rs.1,26,816 crore as on 31st March 2012, registering a growth of 21.70% from the level of Rs. 1,04,202 crore as on 31st March 2011.

2.2 Working Results and Operating Profit

Operating profit (after staff provisions) of the Bank for 2011-12 went up by 6.19 % to Rs. 1248.80 crore from Rs. 1,175.97 crore for the previous year. Net Profit for the year stood at Rs.510.46 crore as compared to Rs. 727.73 crore in 2010-11. The Earnings per share (of Rs.10 face value) stood at Rs.102.09 compared to Rs.145.55 at the end of the previous year.

The Net Interest Income increased by 7.92 % from Rs.1,696.03 crore in FY 10-11 to Rs. 1830.37 crore in FY 11-12. Net Interest Margin stood at 2.66%.

2.3 Dividend

The Bank declared a dividend of Rs.18 per share (180%) for the year to the shareholders, entailing a total pay out of Rs. 90 crore Of this, an interim dividend of Rs.16 per share (160%) was paid out in April 2012. The Dividend Pay-out Ratio works out to 17.73 % of the Net Profit.

2.4 Capital Augmentation & Capital Adequacy

The Bank's capital funds improved from Rs. 4,881.08 crore as at the end of March 2011 to Rs. 5,867.09 crore as at the end of March 2012. The capital adequacy Ratio under Basel II stood at 13.55% in March 12 as compared to 12.54% in March 11 against a minimum of 9% stipulated by RBI. The Tier-I CRAR on this date is 9.35% as against 9.00% as at the end of the previous year. The Bank's Board of Directors had approved a Rights Issue of shares to the shareholders for an amount of Rs.500 crore. The approvals from the RBI and State Bank of India for the issue have been received. The capital augmentation will serve to improve the Capital adequacy ratio of the Bank in 2012-13.

2.5 Deposits

Aggregate Deposits of the Bank registered a growth of 23%, reaching the level of Rs.70,965 crore as on 31st March 2012 as against Rs. 57,599 crore as on 31st March 2011. Personal Deposits, which contribute the bulk of the resources, grew by Rs.9,281 crore to reach Rs.45,378 crore. NRI Deposits recorded improved performance compared to the previous year, grew by Rs 3,747 crore, surpassed the annual budgeted growth and stood at Rs.15,309 crore as on 31st March 2012. NRI Deposits constituted 22 % of the Aggregate Deposits of the Bank as on 31st March 2012. Total Deposits of the Bank [including Inter Bank Deposits] moved up to Rs. 71,470 crore as on 31st March 2012 from Rs. 58,158 crore as on 31st March 2011.

2.6 Advances

Advances of the Bank registered a growth of 20.20% during the year and reached a level of Rs. 55,346 crore as on 31st March 2012 as against Rs. 46,044 crore as on 31st March 2011. The main contributions came from the C&I segment [growth of Rs.6,266 crore] and Agriculture segment [growth of Rs.3,322 crore]. The Bank's Retail lending stood at Rs.26,353 crore and constituted 47% of Gross Advances as at the end of March 2012. The Credit Deposit Ratio of the Bank stood at 77.44% as on 31st March 2012 as against 79.17% as on 31st March 2011.

2.7 Market Share

Bank's All India market share in Deposits has improved from 1.10% on 25th March 2011 to 1.16% on 30th March

2012. The market share in Advances has improved from 1.16% to 1.18% during the same period. However, the market share in Advance would be 1.22% when including the Rs.2,000 crore of Inter Bank Participation Certificate (IBPC) issued by the Bank during the year. The Bank continued to maintain its position as the premier bank in Kerala with a market share in business of 23.78% as at September 2011 [the latest date up to which data has been released by RBI] with 16.11% of the total branch network in the state.

2.8 Priority Sector Lending

The Bank continued to give special emphasis on lending to the Priority Sector in conformity with the national policies, expectations and fulfilment of social objectives. Bank's gross Advances to the Priority Sector increased from Rs. 17,353 crore as at the end of March 2011 to Rs.20,287 crore as at the end of March 2012, and constituted 43.64% of the Adjusted Net Bank Credit against the benchmark of 40%.

2.9 Agricultural and Rural Finance & Self Help Groups

The Bank's performance under Agriculture segment is remarkable during the year under review. Bank was able to achieve the bench mark of 18%, stipulated. Bank has disbursed an amount of Rs. 9,639 crore under agriculture segment as at the end of March 2012 against the Special Agricultural Credit Plan target of Rs. 5,000 crore. The level of lending to agriculture sector stood at Rs.8,902 crore as on 31st March 2012. Agri segment showed a positive growth of Rs. 3,322 crore as at the end of the financial year 2011-12, compared to a growth of Rs.2,280 crore during the same period last year. The share of Agricultural Advances to Adjusted Net Bank Credit [ANBC] improved to 19.15 % from 14.17% as at the end of previous year.

During the current fiscal 16,197 Kisan Credit Cards (Working capital facility to farmers) and 2,950 Kisan Gold Cards (Investment credit to farmers) were issued with an outlay of funds of Rs.192 crore and Rs.127 crore respectively. A campaign was conducted from 1st September 2011 up to 15th January 2012 for coverage of all eligible farmers under Kisan Credit Card.

The Bank had conducted an intensive agriculture lending campaign called “SBT- Haritotsavam-2011” during the period 20th June to 20th October 2011 with a lending target of Rs.2,000 crore to cover 2,50,000 farmers. The amount disbursed during the period was Rs.2,780 crore benefiting 3,29,000 farmers. 12 episodes of 'SBT Vayalum Veedum' – (Farm and Home) – was broadcasted through All India Radio as publicity to the campaign. The programme, wholeheartedly received by the general public, was intended to give awareness on Bank's various agricultural schemes and the procedures for availing them.

Bank has sponsored 222 Farmers Club, including the three new Clubs formed during the year. At the Farmers' Club meetings, issues faced by the farmers were brought to the notice of the Bank and other Agencies working in the field and necessary solutions suggested. Farmers' Meets with Agricultural Seminars, 'Karshaka Mela' etc. were conducted at various centres to give wide publicity of schemes available to farmers. A special brochure on agricultural schemes in local languages was printed and supplied to the branches for the benefit of farmers. Advertisements were given in leading newspapers and magazines highlighting our various schemes. Farmers' Day was observed and celebrated throughout the branches in Kerala on 17th August 2011 (1st day of 'Chingam'), associated with Krishi Bhavans, Animal Husbandry Department etc. Best farmers were felicitated and agricultural loans distributed at the function.“Onattukara Sangamam” with agricultural exhibition and seminars were organized by the branches in and around Mavelikara area (previously known as 'Onattukara').

Schemes for food processing and agro based industries (with investment in plant and machinery upto Rs.10 crore) was introduced at special reduced rate of interest, covering a wide variety of activities like manufacturing and processing of food products including rice mills, cotton mills etc. Centrally sponsored subsidy linked scheme for rearing sheep, goats and rabbits were also introduced. Schemes for Dairy Entrepreneurship Development and poultry farming with NABARD subsidy were marketed vigorously.

Micro Credit / Self Help Groups: Bank continued to be active in assisting Self Help Groups (SHGs) and financing them through Micro Financing Institutions (MFIs) and Non-Government Organisations (NGOs). 88,273 SHGs were assisted upto March 2012 with a financial outlay of Rs. 738 crore. The Bank disbursed loans aggregating to Rs. 82 crore to 3,486 SHGs during the year.