ANNUAL REPORT
2015-16

സ്റ്റേറ്റ് ബാങ്ക് ഓഫ് ട്രാവൻകൂർ
स्टेट बैंक आफ त्रावणकोर
State Bank of Travancore

JOURNEY THROUGH THE DECADES

(₹ in Crore)

	December 1976	December 1986	March 1996	March 2006	March 2016
Paid up Capital & Reserves	2.07	8.00	200	1332	6021
Deposits	155.18	1210.03	5621	25997	101119
Advances	97.12	745.22	3349	18866	67004
Gross Investment	45.57	386.79	1880	10745	36123
Priority Sector Lending	22.16	341.78	1129	7755	27793
Export Finance	5.57	23.08	375	921	1984
Net Profit	0.21	1.08	26	259	338
Number of Branches	330	573	651	690	1177
Number of Employees	4318	11214	12855	11642	14892

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State Bank of Travancore

(Associate of the State Bank of India)
Head Office: Thiruvananthapuram

NOTICE

The Fifty Sixth 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 - 695034, on Monday, the 30th May, 2016 at 11.30 A.M. (Indian Standard Time) to transact the following business:

"To discuss and adopt the Balance Sheet and Profit and Loss Account of the Bank made up to the 31st March, 2016, the Report of the Board of Directors and the Auditors' Report on the Balance Sheet and Accounts."

Mumbai
Date: 25th April, 2016

Jeevandas Narayan
Managing Director

BOARD OF DIRECTORS AS ON 31ST MARCH, 2016	
Smt. Arundhati Bhattacharya	Chairman of the Board under clause (a) of sub-section (1) of section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. Jeevandas Narayan	Director under Clause (aa) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Dr. J Sadakkadulla	Director under clause (b) of sub-section (1) of section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. V G Kannan	Director under clause (c) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. Neeraj Vyas	Director under clause (c) of sub-section (1) of section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. Ravi Nandan Sahay	Director under clause (c) of sub-section (1) of section 25 of the State Bank of India (Subsidiary Banks) Act, 1959.
Shri. Vijay Kumar Monga	Director under clause (c) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. V Kaliappan	Director under Clause (c) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. P V Prasad	Director under Clause (ca) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. M C Jacob	Director under Clause (d) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. Sajen Peter	Director under Clause (d) of sub-section (1) of Section 25 of the State Bank of India (Subsidiary Banks) Act, 1959
Shri. Anshuman Sharma	Director under clause (e) of sub-section (1) of section 25 of the State Bank of India (Subsidiary Banks) Act, 1959.

MANAGEMENT COMMITTEE AS ON 31ST MARCH, 2016	
Shri. Jeevandas Narayan	Managing Director
Shri. E.K. Harikumar	Chief General Manager (Retail Banking)
Shri. S. Adikesavan	Chief General Manager (Commercial Banking)
Shri. D. Babu Jayaraj	General Manager (Retail Network III)
Shri. S. Harisankar	General Manager (Retail Network II)
Shri. M.K. Bhattacharya	General Manager (Business Strategy & Rural Banking)
Shri. Varadaraja Iyer M	General Manager (Risk Management, CRO & IT)
Shri. M. Devi Prasad	General Manager (Retail Network I)
Shri. Satyaki Rastogi	Chief Vigilance Officer
Shri. Samkutty Mathews	General Manager (Human Resources & SAMG)
Shri. Sushil Kumar Goyal	General Manager (Commercial Banking)
Shri. A. Aravind	General Manager (Treasury & Chief Financial 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, 2015 to 31st March, 2016

1. MANAGEMENT DISCUSSIONS & ANALYSIS

1.1 Global Economy

Global economic activity remained subdued during the FY16. While, there was a modest recovery in advanced economies, the growth in emerging markets and developing economies (which accounts for over 70% of global growth), declined for the fifth consecutive year.

The International Monetary Fund (IMF) in its April, 2016 World Economic Outlook update has estimated the Global growth at 3.10% for the calendar year 2015. It has projected a Global growth at 3.20% for 2016 and 3.50% for 2017.

Growth in advanced economies is projected at 1.9% in 2016, and a modest improvement to 2.0% in 2017. Growth in United States is expected to remain resilient owing to easy financial conditions and strengthening of housing and labour markets.

Growth in the euro area is expected to improve due to stronger private consumption supported by lower oil prices and easy financial conditions. Growth in Japan is also expected to consolidate in 2016, on the back of fiscal support, lower oil prices, accommodative financial conditions, and rising incomes.

The picture for emerging market and developing economies is diverse but in many cases challenging. The slowdown and rebalancing of the Chinese economy, lower commodity prices and strains in some large emerging market economies will continue to weigh on the growth prospects in coming years.

The recovery is projected to grow at a modest pace in the next two years, despite the ongoing slowdown in China, driven primarily by emerging markets, developing economies and improvement of growth rates in economies currently in economic distress, notably Brazil, Russia, and some countries in the Middle East.

However, the prolonged fall in commodity prices, particularly crude prices will continue to keep risks elevated for emerging markets.

1.2 Indian Economy

The Indian economy is the seventh largest in the world by nominal Gross Domestic Product (GDP) and the third largest by Purchasing Power Parity (PPP). The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. India has one of the fastest growing service sectors in the world with annual growth rate of above 9%.

The Indian economy has continued to consolidate the gains achieved in restoring the macroeconomic stability with decline in inflation, fiscal deficit and the current account deficit, thus rendering India as a relative haven of macro stability in these difficult times.

The economic growth appears to be recovering, albeit at varying speeds across sectors. The GDP for the current FY16 is estimated to improve to 7.60% from 7.20% in FY15. At the sectoral level, the growth rate for agriculture & allied sectors, industry and services sector for FY16 are estimated to be 1.1%, 7.3% and 9.2% respectively.

Industrial production remained subdued with decline in manufacturing activity in recent months. Nonetheless electricity generation remained resilient and is expected to sustain its performance backed by thermal supplies. Services sector activity expanded steadily through the year, with trade, hotels, transport, communication, public administration, defence and related services turning out to be the main drivers. The construction sector continues to be saddled with unsold inventory in the residential space, although commercial real estate is being boosted by demand from information technology (IT) and IT-enabled services. Agriculture and allied activities output moderated due to decline in kharif production during the year. However, the prospects of above normal monsoon in 2016 will provide enough boost to the economy.

Merchandise exports shrank by 15.9% in FY16 to \$261.1 billion amid weak overseas demand, a slump in commodity prices and currency volatility. Reflecting a slowdown in the domestic economy, especially in the manufacturing sector, the goods imported contracted by 15.3% to \$379.6 billion. The trend of falling exports is in tandem with other major world economies.

Inflation remains under control. The Consumer Price Index (CPI) has fluctuated around 5% to 5.50%. Going forward, CPI inflation is expected to decelerate modestly and remain under 5% during most of the FY17.

Indian economy is now on the threshold of a major transformation, with expectations of policy initiatives by Central government and RBI. The economy is on the road to recovery due to positive business sentiments, improved consumer confidence, controlled level of inflation and lower fiscal deficit.

1.3 Kerala Economy

Kerala is known for its high quality of human development which is getting enhanced at a significantly higher pace in recent years as against the rest of the country. With both urban and rural areas of Kerala reporting asset holdings much higher than all India average, the state is ranked among the top three Indian states.

Gross Value Added (GVA) growth rate (base year 2011-12) in FY15 is estimated to be 6.20% as compared to 4.34% in FY14. During FY15, the contribution from primary, secondary and tertiary sectors to the Gross State Value Added (GSVA) at constant prices (2011-12) was 12.15%, 25.11% and 62.74% respectively.

Tourism and remittances from abroad, continue to play an important role in the growth of Kerala's economy. The last two decades have seen a boom in Tourism sector in Kerala. Currently the contribution of Tourism to the Kerala economy is over 10%.

Recognizing the importance of infrastructure, the State has during the last four years given a thrust to major projects like the Kochi Metro, Vizhinjam Port and Kannur Air Port. These projects are expected to bring about major transformation in the State economy. The framework for the development of the Kerala Perspective Plan 2030 has also been conceived in terms of innovation-embracing entrepreneurs at the centre of the economy, with eight pillars of institutional elements, infrastructure, health and primary education, quality of higher education, labour market efficiency, development of financial Sector, technological readiness and innovation built on the foundational elements of environmental sustainability and social sustainability. This will boost Kerala's competitiveness and improve its future economic outlook. In short, the overall economic environment is conducive to generate good business, particularly on credit side, in the upcoming year.

1.4 Banking Environment

The resilience and stability of the domestic financial system have become essential to the country's macroeconomic stability, particularly in an increasingly integrated world. The Indian banking system is resilient enough to face any adverse economic situation. The sector has passed the financial crisis without any copious impact on the banks' balance sheet, which was mainly due to strong regulations and less exposure to the global economy. However, at present the Indian banking system is undergoing a critical phase, with high level of NPAs, need for additional capital for expansion, etc.

In a view to build a robust and resilient financial system, RBI has taken a number of steps in 2015-16. Some of them are stringent capital and liquidity measures for Commercial Banks and steps to build up Capital Conservation Buffers (CCB) and implementation of the Liquidity Coverage Ratio (LCR). Additionally, the Net Stable Funding Ratio (NSFR) is scheduled to be implemented from January 1, 2018, which will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

RBI has also asked banks to implement marginal cost-based lending rate (MCLR), from 1st April, 2016, to benchmark the lending rate for the new borrowers. The banks have implemented the MCLR and it is about 5 to 65 basis points lower than banks' base rate. MCLR is expected to improve transparency in the methodology followed by banks for determining interest rates on advances.

In FY16, the growth rate of deposits and advances of the banking system have declined. Growth in Aggregate deposits of the banking system declined to a historic low of 9.9% in FY16 (for the fortnight ended 18 March,16), compared to 10.7% in FY15 (fortnight ended 20 March, 15). While, credit grew at a higher rate of 11.3% in FY16 (18 March, 16), compared to 9.0% in FY15 (20 March, 15), the incremental lending during the financial year has been mostly to the personal loan segment.

In a move to increase financial inclusion in the country, RBI has issued a total of 23 new banking licences (2 Universal Bank, 11 Payment Bank and 10 Small Finance Bank) in 2015. This may increase competition for deposits and remittance business.

Against this backdrop, FY17 will be a challenging year for the banking sector. The key focus areas for the Indian banks would include liquidity management, gainful deployment of funds, maintaining asset quality, improving Capital adequacy, Strong Risk Management and increased use of technology to drive business and improve profitability. Financial inclusion and talent management would also require greater focus.

1.5 ASCB Performance

All Scheduled Commercial Banks' (ASCB) Deposits grew by ₹7,93,010 crore (9.24%) between 20th March, 2015 and 18th March, 2016 to reach ₹93,78,650 crore as on 18th March, 2016. The Gross Advance grew by ₹7,12,968 crore (10.86%) in the same period to touch ₹72,77,648 crore. Food credit increased by 11.48% to ₹1,05,254 crore. Non Food credit grew by 10.85% and reached the level of ₹71,72,394 crore.

1.6 Regulatory Measures and Monetary Policy

The year 2015-16 witnessed a series of monetary measures initiated by Reserve Bank of India to contain rising inflation and arresting the weakening of rupee. Further, liberalisation in the Branch Authorization Policy and adoption of more stringent security measures for electronic payment system were announced.

RBI issued 6 Bi-monthly Monetary Policy statements during the year under review, in April, June, August, September and December, 2015 and in February, 2016. Some of the main policy changes and reforms announced by RBI are as under:

Repo rate under the Liquidity Adjustment Facility (LAF) has been reduced by 25 basis points from 7.5 per cent to 7.25 per cent from June 02, 2015 and further by 50 basis points from 7.25 per cent to 6.75 per cent from September 29, 2015.

- Cash Reserve Ratio (CRR) of Scheduled Commercial Banks has been maintained at 4.0 per cent of Net Demand and Time Liability (NDTL).
- Increased liquidity provided under 7-day and 14-day term repos.

RBI vide circular dated 23.04.2015 has issued guidelines revising Priority sector norms. The salient features of the guidelines are as under:-

- Categories of the priority sector: Medium Enterprises, Social Infrastructure and Renewable Energy will form part of priority sector, in addition to the existing categories.
- Agriculture: The distinction between direct and indirect agriculture is dispensed with.
- Small and Marginal Farmers: A target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, has been prescribed
- Micro Enterprises: A target of 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, has been prescribed for Micro Enterprises, to be achieved in a phased manner i.e. 7 percent by March 2016 and 7.5 percent by March 2017.
- There is no change in the target of 10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, for Weaker Sections.
- Bank loans to food and agro processing units upto an aggregate sanctioned limit of ₹100 crore per borrower from banking system will form part of ancillary activities under Agriculture.
- Export credit: Export credit up to 32 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, will be eligible as part of priority sector for foreign banks with less than 20 branches. For other banks, the incremental export credit over corresponding date of the preceding year will be reckoned up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher.
- The loan limits for housing loans and MFI loans qualifying under priority sector have been revised.
- The priority sector non-achievement will be assessed on quarterly average basis at the end of the respective year from 2016-17 onwards, instead of annual basis as at present.

2. The Bank's operations and performance

2.1 The Bank continued the process of consolidation during FY 2015-16. While, there were not much greenfield investment happening in the corporate sector and with the credit off-take not picking up to the expected levels, concerted efforts were made to reduce interest expenditure and thereby to improve the operating profit. Conscious efforts were made to reduce Bulk deposits, high cost deposits and borrowings to reduce interest expenditure and thereby improve Net Interest Income.

The bulk deposits (including CDs) have come down by over ₹2,613 crore during the year, and consequently the bulk deposit ratio has come down from 13.24% as on 31st March, 2015 to 9.34% as on 31st March, 2016.

This, together with improvement of CASA and lowering of interest rates on deposits has resulted in the cost of deposits coming down from 7.32% as on 31st March, 2015 to 6.94% as on 31st March, 2016.

2.2 Total Business

The Total Business of the Bank stood at ₹1,68,123 crore as on 31st March, 2016 against ₹1,60,984 crore as on 31st March, 2015. It comprises of Total Deposits of ₹1,01,119 crore and Gross Advances of ₹67,004 crore.

2.3 Working results and Operating Profit

The Operating Profit for the year ended 31st March, 2016 grew by 31.06% from ₹1,372.16 crore as on 31st March, 2015 to ₹1,798.33 crore as on 31st March, 2016. The Net Profit for the year stood at ₹337.73 crore as compared to ₹335.53 crore for FY 2014–15. The earnings per share (face value of ₹10) was ₹47.50 as on 31st March, 2016 as against ₹56.63 as on 31st March, 2015.

2.4 Dividend

The Bank declared a dividend of ₹5 per equity share of face value ₹10 each for the year (previous year dividend ₹5 per equity share) to the shareholders, entailing a total payout of ₹35.55 crore. The dividend payout Ratio works out to 10.53% of Net Profit.

2.5 Capital and Capital Adequacy

During the year, the Bank has allotted 1,18,50,694 equity shares of ₹10 each fully paid up for cash at a price of ₹400 including a Premium of ₹390 per equity share aggregating to ₹474.03 crore on Rights basis to the existing equity shareholders of the Bank in the ratio of 1(One) fully paid-up equity share for every 5(Five) equity shares held as on Record Date i.e. 04th March, 2015. The Bank made the allotment of the equity shares on 13th April, 2015 against the share application money held as on 31st March, 2015.

The Bank has also raised ₹515 crore to augment the Capital resources by issuing Basel III compliant Tier II bonds. These bonds are listed on National Stock Exchange of India Ltd.

Under Basel III, the Bank's capital position improved from ₹6636.65 crore as on March 31, 2015 to ₹7317.40 crore as on March 31, 2016 and the Capital Adequacy Ratio improved from 10.89% as on March 31, 2015 to 11.60% as on March 31, 2016 against a minimum of 9.625% stipulated by RBI.

The Capital Adequacy Ratio under Basel II improved from 11.63% as on March 31, 2015 to 12.50% as on March 31, 2016.

2.6 Deposits

Bank's Aggregate Deposits showed a growth of 11.23% and stood at ₹1,00,473 crore as on 31st March, 2016 compared to ₹90,328 crore in the previous year. Total Deposits of the Bank (including Inter Bank Deposits) grew by ₹10,042 crore to ₹1,01,119 crore as on 31st March, 2016 as against ₹91,077 crore as on 31st March, 2015.

More than 50% of growth under Total Deposits came from CASA deposits, which grew by ₹5,073 Crore. The CASA Ratio improved from 29.79% as on 31st March, 2015 to 31.84% as on 31st March, 2016.

2.7 Advances

The Gross Advances of the Bank stood ₹67,004 crore as at the end of 31st March, 2016 as against ₹69,907 crore a year ago, recording a negative growth of ₹2,903 crore (-4.15%) due to sluggish credit off-take coupled with macroeconomic conditions. Personal segment advance grew by ₹1,959 crore, SME advance grew by ₹883 crore whereas the advance in C&I & Agriculture segment declined by ₹2,856 crore & ₹2,889 crore respectively.

The retail lending stood at ₹35,481 crore and constituted 52.95% of the Total Advances as at the end of 31st March, 2016.

The Credit Deposit Ratio (Gross Advance to Aggregate Deposits) stood at 66.69% as on 31st March, 2016 as against 76.76% as on 31st March, 2015.

2.8 Market Share

The Bank's market share in ASCB Deposits has increased from 1.05% as on 20/03/2015 to 1.08% as on 18/03/2016 (last reporting friday data of RBI). The market share in Advances has come down from 1.06 % as on 20/03/2015 to 0.92% as on 18/03/2016. The Bank's All India Market share in total business as on 18/03/2016 stood at 1.01%.

The Bank continued to maintain its position as the premier Bank in Kerala with a market share of 19.78% in business among all Commercial Banks (as at the end of December 2015) with a share of 13.88% of the total branch network. In respect of NRI deposits, Bank's market share in the State is 24.20% (Source: SLBC, Kerala).

2.9 Priority Sector Lending

The Bank continued to give special emphasis on lending to the priority sector in conformity with national policies, expectations and for fulfillment of social objectives.

Bank's Gross Advances to the Priority sector was ₹27,793 crore as on 31st March, 2016 as against ₹27,609 crore as on 31st March, 2015 and constituted 38.74% of the Adjusted Net Bank Credit against the benchmark of 40%.

2.10 Agricultural Finance

The Bank disbursed an amount of ₹5,681 crore under Agriculture segment during the financial year 2015-16 against the Special Agricultural Credit Plan target of ₹7,000 crore. Exposure to Agriculture segment stood at ₹9,326 crore (including RIDF) as on 31st March, 2016, which is 13.00% of Adjusted Net Bank Credit, against a benchmark of 18%.

The Bank had conducted an intensive Agricultural lending campaign, called "HARITHOLSAVAM" from 01/07/2015 to 30/09/2015, to give thrust to agriculture lending.

The Bank celebrated Farmers Day on Chingam 1 (17/08/2015) in association with Krishi Bhavans and Animal Husbandry Department at various centres. Progressive farmers were felicitated on the occasion.

The Bank ranked first in the category of Nationalised Banks on the basis of credit linkage to neighbourhood groups (NHGs) sponsored by Kudumbasree Mission. The award was presented by the Hon'ble Chief Minister of Kerala in the 17th Anniversary Function of Kudumbasree on 03/09/2015 at Malappuram.

2.11 Lending to Micro, Small and Medium Enterprises (MSMEs)

MSMEs play a major role in the country's economic development. The Bank gives due importance for the growth of this vital segment of the economy. Total lending to MSME sector as on 31st March, 2016 stood at ₹12,432 crore. The lending to Micro and Small Enterprises (MSEs) stood at ₹9,276 crore.

The Bank received the National Conference & Excellence Award on empowering MSME 2016 for outstanding performance in MSME Lending from Federation of Industry Trade and Services.

Bank also received MSME Banking Excellence Awards 2015 from Chamber of Indian Micro, Small & Medium Enterprises for Best Bank for Eco Technology under "Emerging Banks" Category.

RTO – Tie up arrangement

Road Transport Operators (RTO) is an important sub segment under service segment. Outstanding under RTO segment, as on 31st March, 2016 is ₹280 crore comprising of 7792 accounts.

Prime Minister's Employment Generation Programme (PMEGP)

The Bank has been actively supporting the programme to generate employment for youth and stood first in the State of Kerala, surpassing the targets. The Bank financed 296 projects against the target of 171 projects. The total outstanding under PMEGP scheme was ₹59 crore to 2,313 beneficiaries as on 31st March, 2016.

Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

The Bank is a Member Lending Institution of CGTMSE which provides guarantee cover to collateral free loans upto ₹1 crore. The Bank made it mandatory to cover all eligible accounts up to a limit of ₹50 lacs under CGTMSE. As on 31st March, 2016, 16518 accounts with limits aggregating to ₹758 crore stood covered under the scheme.

Specialised MSME Branches:

The Bank is having 10 specialised MSME Branches in Kerala to cater to the needs of MSME clientele.

Loan Origination Software (LOS):

The Bank has implemented Loan Origination Software (LOS) as a process of digitalisation of SME Loan processing mechanism. It integrates sourcing, sanctioning and documentation processes.

Dealer Finance Scheme (e-DFS and m-DFS):

The Bank has introduced a new product as Dealer Finance Scheme to provide credit facility to dealers of Industrial Majors for carrying inventory. The scheme operates on the Bank Internet Banking platform. The Bank has entered into tie up arrangement with five Industrial Majors in various parts of the country.

Pradhan Mantri Mudra Yojana

The Bank has implemented 'Pradhan Mantri Mudra Yojana' (PMMY), a flagship scheme of Government of India which was launched by the Hon'ble Prime Minister. The Bank has taken many initiatives to make the public aware of the scheme details as per Government of India guidelines and has made a Credit delivery of ₹335 crore under the scheme to 19470 beneficiaries.

Vizhinjam Port Package

As a novel initiative, the Bank has bundled 7 MSME products and introduced Vizhinjam Port Package to cater to the needs of MSME customers who would be