3.1 STATE BANK OF INDIA

The State Bank of India, the country’s oldest Bank and a premier in terms of balance sheet size, number of branches, market capitalization and profits is today going through a momentous phase of Change and Transformation – the two hundred year old Public sector behemoth is today stirring out of its Public Sector legacy and moving with an ability to give the Private and Foreign Banks a run for their money.

The bank is entering into many new businesses with strategic tie ups – Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale Merchant Acquisition, Advisory Services, structured products etc – each one of these initiatives having a huge potential for growth.

The Bank is forging ahead with cutting edge technology and innovative new banking models, to expand its Rural Banking base, looking at the vast untapped potential in the hinterland and proposes to cover 100,000 villages in the next two years.

It is also focusing at the top end of the market, on whole sale banking capabilities to provide India’s growing mid / large Corporate with a complete array of products and services. It is consolidating its global treasury operations and entering into structured products and derivative instruments. Today, the Bank is the largest provider of infrastructure debt and the largest arranger of external commercial borrowings in the country. It is the only Indian bank to feature in the Fortune 500 list.
The Bank is changing outdated front and back end processes to modern customer friendly processes to help improve the total customer experience. With about 8500 of its own 10000 branches and another 5100 branches of its Associate Banks already networked, today it offers the largest banking network to the Indian customer. The Bank is also in the process of providing complete payment solution to its clientele with its over 21000 ATMs, and other electronic channels such as Internet banking, debit cards, mobile banking, etc.

With four national level Apex Training Colleges and 54 learning Centers spread all over the country the Bank is continuously engaged in skill enhancement of its employees. Some of the training programs are attended by bankers from banks in other countries.

The bank is also looking at opportunities to grow in size in India as well as internationally. It presently has 173 foreign offices in 33 countries across the globe. It has also 7 Subsidiaries in India – SBI Capital Markets, SBICAP Securities, SBI DFHI, SBI Factors, SBI Life and SBI Cards - forming a formidable group in the Indian Banking scenario. It is in the process of raising capital for its growth and also consolidating its various holdings.

Throughout all this change, the Bank is also attempting to change old mindsets, attitudes and take all employees together on this exciting road to Transformation. In a recently concluded mass internal communication programmed termed ‘Parivartan’ the Bank rolled out over 3300 two day workshops across the country and covered over 130,000 employees in a period of 100 days using about 400
Trainers, to drive home the message of Change and inclusiveness. The workshops fired the imagination of the employees with some other banks in India as well as other Public Sector Organizations seeking to emulate the programme.

The CNN IBN, Network 18 recognized this momentous transformation journey, the State Bank of India is undertaking, and has awarded the prestigious Indian of the Year – Business, to its Chairman, Mr. O. P. Bhatt in January 2008.

3.1.1 Evolution of SBI

The origin of the State Bank of India goes back to the first decade of the nineteenth century with the establishment of the Bank of Calcutta in Calcutta on 2 June 1806. Three years later the bank received its charter and was re-designed as the Bank of Bengal (2 January 1809). A unique institution, it was the first joint-stock bank of British India sponsored by the Government of Bengal. The Bank of Bombay (15 April 1840) and the Bank of Madras (1 July 1843) followed the Bank of Bengal. These three banks remained at the apex of modern banking in India till their amalgamation as the Imperial Bank of India on 27 January 1921.

Primarily Anglo-Indian creations, the three presidency banks came into existence either as a result of the compulsions of imperial finance or by the felt needs of local European commerce and were not imposed from outside in an arbitrary manner to modernize India's economy. Their evolution was, however, shaped by ideas culled from similar developments in Europe and England, and was influenced by changes occurring in the structure of both the local trading environment and those in the relations of the Indian economy to the economy of Europe and the global economic framework.
The establishment of the Bank of Bengal marked the advent of limited liability, joint-stock banking in India. So was the associated innovation in banking, viz. the decision to allow the Bank of Bengal to issue notes, which would be accepted for payment of public revenues within a restricted geographical area. This right of note issue was very valuable not only for the Bank of Bengal but also its two siblings, the Banks of Bombay and Madras. It meant an accretion to the capital of the banks, a capital on which the proprietors did not have to pay any interest. The concept of deposit banking was also an innovation because the practice of accepting money for safekeeping (and in some cases, even investment on behalf of the clients) by the indigenous bankers had not spread as a general habit in most parts of India. But, for a long time, and especially up to the time that the three presidency banks had a right of note issue, bank notes and government balances made up the bulk of the investible resources of the banks.

The three banks were governed by royal charters, which were revised from time to time. Each charter provided for a share capital, four-fifth of which were privately subscribed and the rest owned by the provincial government. The members of the board of directors, which managed the affairs of each bank, were mostly proprietary directors representing the large European managing agency houses in India. The rest were government nominees, invariably civil servants, one of whom was elected as the president of the board.

The business of the banks was initially confined to discounting of bills of exchange or other negotiable private securities, keeping cash accounts and receiving deposits and issuing and circulating cash notes. Loans were restricted to Rs. one lakh and the period of accommodation confined to three months only. The security for
such loans was public securities, commonly called Company's Paper, bullion, treasure, plate, jewels, or goods 'not of a perishable nature' and no interest could be charged beyond a rate of twelve per cent. Loans against goods like opium, indigo, salt woolens, cotton, cotton piece goods, mule twist and silk goods were also granted but such finance by way of cash credits gained momentum only from the third decade of the nineteenth century. All commodities, including tea, sugar and jute, which began to be financed later, were either pledged or hypothecated to the bank. Demand promissory notes were signed by the borrower in favor of the guarantor, which was in turn endorsed to the bank. Lending against shares of the banks or on the mortgage of houses, land or other real property was, however, forbidden.

Indians were the principal borrowers against deposit of Company's paper, while the business of discounts on private as well as salary bills was almost the exclusive monopoly of individuals Europeans and their partnership firms. But the main function of the three banks, as far as the government was concerned, was to help the latter raise loans from time to time and also provide a degree of stability to the prices of government securities.

A major change in the conditions of operation of the Banks of Bengal, Bombay and Madras occurred after 1860. With the passing of the Paper Currency Act of 1861, the right of note issue of the presidency banks was abolished and the Government of India assumed from 1 March 1862 the sole power of issuing paper currency within British India. The task of management and circulation of the new currency notes was conferred on the presidency banks and the Government undertook to transfer the Treasury balances to the banks at places where the banks would open branches. None of the three banks had till then any branches (except the sole attempt
and that too a short-lived one by the Bank of Bengal at Mirzapore in 1839) although
the charters had given them such authority. But as soon as the three presidency bands
were assured of the free use of government Treasury balances at places where they
would open branches, they embarked on branch expansion at a rapid pace. By 1876,
the branches, agencies and sub agencies of the three presidency banks covered most
of the major parts and many of the inland trade centers in India. While the Bank of
Bengal had eighteen branches including its head office, seasonal branches and sub
agencies, the Banks of Bombay and Madras had fifteen each.

The presidency Banks Act, which came into operation on 1 May 1876,
brought the three presidency banks under a common statute with similar restrictions
on business. The proprietary connection of the Government was, however, terminated,
though the banks continued to hold charge of the public debt offices in the three
presidency towns, and the custody of a part of the government balances. The Act also
stipulated the creation of Reserve Treasuries at Calcutta, Bombay and Madras into
which sums above the specified minimum balances promised to the presidency banks
at only their head offices were to be lodged. The Government could lend to the
presidency banks from such Reserve Treasuries but the latter could look upon them
more as a favor than as a right.

The decision of the Government to keep the surplus balances in Reserve
Treasuries outside the normal control of the presidency banks and the connected
decision not to guarantee minimum government balances at new places where
branches were to be opened effectively checked the growth of new branches after
1876. The pace of expansion witnessed in the previous decade fell sharply although,
in the case of the Bank of Madras, it continued on a modest scale as the profits of that
bank were mainly derived from trade dispersed among a number of port towns and inland centers of the presidency.

India witnessed rapid commercialization in the last quarter of the nineteenth century as its railway network expanded to cover all the major regions of the country. New irrigation networks in Madras, Punjab and Sind accelerated the process of conversion of subsistence crops into cash crops, a portion of which found its way into the foreign markets. Tea and coffee plantations transformed large areas of the eastern Terais, the hills of Assam and the Nilgiris into regions of estate agriculture par excellence. All these resulted in the expansion of India's international trade more than six-fold. The three presidency banks were both beneficiaries and promoters of this commercialization process as they became involved in the financing of practically every trading, manufacturing and mining activity in the sub-continent. While the Banks of Bengal and Bombay were engaged in the financing of large modern manufacturing industries, the Bank of Madras went into the financing of large modern manufacturing industries; the Bank of Madras went into the financing of small-scale industries in a way which had no parallel elsewhere. But the three banks were rigorously excluded from any business involving foreign exchange. Not only was such business considered risky for these banks, which held government deposits, it was also feared that these banks enjoying government patronage would offer unfair competition to the exchange banks which had by then arrived in India. This exclusion continued till the creation of the Reserve Bank of India in 1935.

The presidency Banks of Bengal, Bombay and Madras with their 70 branches were merged in 1921 to form the Imperial Bank of India. The triad had been transformed into a monolith and a giant among Indian commercial banks had
emerged. The new bank took on the triple role of a commercial bank, a banker's bank and a banker to the government.

But this creation was preceded by years of deliberations on the need for a 'State Bank of India'. What eventually emerged was a 'half-way house' combining the functions of a commercial bank and a quasi-central bank. The establishment of the Reserve Bank of India as the central bank of the country in 1935 ended the quasi-central banking role of the Imperial Bank. The latter ceased to be bankers to the Government of India and instead became agent of the Reserve Bank for the transaction of government business at centers at which the central bank was not established. But it continued to maintain currency chests and small coin depots and operate the remittance facilities scheme for other banks and the public on terms stipulated by the Reserve Bank. It also acted as a bankers' bank by holding their surplus cash and granting them advances against authorized securities. The management of the bank clearing houses also continued with it at many places where the Reserve Bank did not have offices. The bank was also the biggest tenderer at the Treasury bill auctions conducted by the Reserve Bank on behalf of the Government. The establishment of the Reserve Bank simultaneously saw important amendments being made to the constitution of the Imperial Bank converting it into a purely commercial bank. The earlier restrictions on its business were removed and the bank was permitted to undertake foreign exchange business and executor and trustee business for the first time.

The Imperial Bank during the three and a half decades of its existence recorded an impressive growth in terms of offices, reserves, deposits, investments and advances, the increases in some cases amounting to more than six-fold. The financial
status and security inherited from its forerunners no doubt provided a firm and
durable platform. But the lofty traditions of banking which the Imperial Bank
consistently maintained and the high standard of integrity it observed in its operations
inspired confidence in its depositors that no other bank in India could perhaps then
equal. All these enabled the Imperial Bank to acquire a pre-eminent position in the
Indian banking industry and also secure a vital place in the country's economic life.

When India attained freedom, the Imperial Bank had a capital base (including
reserves) of Rs.11.85 crores, deposits and advances of Rs.275.14 crores and Rs.72.94
crores respectively and a network of 172 branches and more than 200 sub offices
extending all over the country.

In 1951, when the First Five Year Plan was launched, the development of
rural India was given the highest priority. The commercial banks of the country
including the Imperial Bank of India had till then confined their operations to the
urban sector and were not equipped to respond to the emergent needs of economic
regeneration of the rural areas. In order, therefore, to serve the economy in general
and the rural sector in particular, the All India Rural Credit Survey Committee
recommended the creation of a state-partnered and state-sponsored bank by taking
over the Imperial Bank of India, and integrating with it, the former state-owned or
state-associate banks. An act was accordingly passed in Parliament in May 1955 and
the State Bank of India was constituted on 1 July 1955. More than a quarter of the
resources of the Indian banking system thus passed under the direct control of the
State. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959,
enabling the State Bank of India to take over eight former State-associated banks as
its subsidiaries (later named Associates).
3.1.2 Capital structure

The Capital Adequacy Ratio for the Bank increased from 11.98% in March’11 to 13.86% in March’12. Specifically, the Tier-1 Capital Adequacy Ratio, which is the bedrock of a bank’s strength, rose from 7.77% to 9.79% during this period. This turnaround has been helped firstly, by improved internal generation and plough back of profits. A second reason is the ₹7,900 crores capital infusion by the Government at the end of March 2012. Finally, the huge effort made by the Bank in terms of optimizing capital has paid off. While capital infusion happens only once in 3-4 years, as a good corporate citizen, SBI discharges its duties diligently and is among the highest tax payers in the country every year. Including income tax and service tax, the total tax paid by your Bank rose from ₹7,329 crores in FY’10 to ₹7,647 crores in FY’12.

3.1.3 Financial Performance

Against the backdrop of a challenging environment, Net Profit of SBI increased by 41.66% from ₹8,265 crores in FY’11 to ₹11,707 crores in FY’12, one of the highest net profits earned by any corporate in the country. Operating Profit for the Bank crossed ₹30,000 crores mark, rising by 24.62% to ₹31,574 crores in FY’12 from ₹25,336 crores in FY’11, indicating that core operations remain robust. The Bank’s consolidated gains on the income side by recording a robust increase in Net Interest Income. In particular, Interest Income on Advances rose by 35.18% from ₹59,976 crores in FY’11 to ₹81,078 crores in FY’12. Interest income of the Bank increased by 30.87% in FY’12 against a growth of 14.65% in FY’11 while growth in interest expenses stood at 29.39% in FY’12. Fee income also recorded a rise of 4.56% in FY’12. Consequently, Net Interest Income increased by 33.10% to ₹43,291 crores in
FY’12. However, reflecting market conditions, non-interest income showed a decline of 9.31% due to the loss of `920 crores on account of sale of domestic equity and bonds.

On the other hand, with lower reliance on bulk deposits, interest paid on deposits showed a smaller increase of 28.70% from `43,235 crores in FY’11 to `55,644 crores in FY’12. More importantly, the quarterly movement in income parameters shows that the last year has witnessed a constant and consistent up trend, leading to enduring results. Due to a prudent and market driven approach, the Bank is able to lend profitably and borrow at a reasonable cost which is clearly shown by the strong Net Interest Margin (NIM) of 3.85% in FY’12, up from 3.32% in FY’11. This performance is remarkable because SBI has the lowest Base Rate in the industry, so, clearly the Bank has the trust of the people as it strive’s to be ‘The Banker to Every Indian’. Bank’s domestic NIM at 4.17% is remarkable as it ranks at the very top among its peers. The revenue growth has significantly outstripped growth in expenses. Staff expenses, which have largely been contained after full provisions for current wages and superannuation expenses rose by 11.59% from `15,213 crores in FY’11 to `16,974 crores in FY’12. Due to consolidated improvement all round, total provisions also increased by only 16.37% from `17,071 crores in FY’11 to `19,866 crores in FY’12.

3.1.4 Asset Quality

Along with robust growth, SBI has ensured that asset quality is maintained. As of end-March’12, Gross NPAs of the Bank stood at 4.44%. Net NPAs that had risen to 2.22% in December’11 also fell below the psychological threshold of 2% to 1.82%. What adds to the Bank’s strength is that the Provision Coverage Ratio improved to
68.10% in March’12 from 64.95% in March’11, reflecting our abundant prudence and caution. Further, out of total Restructured Standard Assets of `37,168 crores outstanding on the books of the Bank as on 31st March 2012, only `6,010 crores are in the NPA category, so the risk is well contained. The improved performance in respect of NPAs has been possible due to our committed and focused efforts.

3.1.5 New Initiatives

- The new product, ‘unfixed Deposits’, introduced by your Bank for deposits of 7-180 days, with option to break the deposit any time without penalty, has been a great success. With interest rate of 8-9%, this product is uniquely positioned to attract short term funds and compete with liquid mutual funds, which offer returns ranging from 8.8% to 9.5%.

- To promote trade finance, in March’11 your Bank launched a web-based portal, e-Trade SBI, to provide access to trade finance services with speed and efficiency. Presently, the e-trade platform has been introduced in all 6 CAG Branches and 63 MCG Branches. As on 31st March’12, 393 corporates have registered under e-Trade SBI.

- SBI is the market leader (market share around 25.55% as on March’11) in SHG-Bank Credit Linkage programme having credit linked so far 20.65 lakh SHGs and disbursed loans to the extent of `17,600 crores (cumulative) up to March’12.

- To support the growing demand from the retail segment and tap the huge potential available in the market, the Bank moved aggressively to create a comprehensive electronic payment infrastructure to activate our 108 million debit cards and has entered into Merchant Acquiring Business (MAB). It has, so far approved
deployment of more than 28,000 POS terminals. The number of transactions from these terminals rose from 2.62 lakh in March’11 to 10.19 lakh in March’12.

3.1.6 Information Technology

A. Core Banking:

A major infrastructure upgrade of hardware and data storage system has been undertaken for the Primary and the Disaster Recovery set up to ensure uninterrupted and efficient operations reduce processing time and make provision for scalability for future requirements. Milestones of managing 307 million accounts, 56 million transactions in a day and 2,067 transactions per second have been achieved.

A centralized functionality to generate and provide statements of accounts to all Current Account customers, Home Loan interest/installment payments certificates and TDR/STDR interest paid during the year with TDS particulars have been rolled out. Similar customer service initiatives are on the anvil. A centralized Credit Data Processing (CCDP) functionality fully integrated with CBS has been implemented to collate data for annual closing activities.

(i) ATM

State Bank Group has in its stable, variants of ATMs namely Bunch Note Acceptors, Bio metric ATMs, Low Cost Rural ATMs, Solar Powered ATMs, Multi function Kiosks - for printing passbooks, statement of accounts, bar code readers for utility bill payments, internet banking etc. While cash deposit facility has been activated at some of the ATMs, we are now going to deploy a large number of Cash Deposit Machines (Bunch Note Acceptors) at ATM locations which customers can use 24x7 to deposit cash. 50 such machines have already been deployed and we plan
to deploy another 600 Cash Deposit Machines this year. Cash out incidents in ATMs have been eliminated.

(ii) Mobile Banking:

As on 31st March 2012, there were 3.65 Million customers using the Service with more than 1.20 lakh daily transactions, around 46% of which are financial transactions amounting to `2.45 crores.

SBI is the market leader in this space, both in the number and value of the financial transactions with 83.70% market share in number of transactions and 49% share in transaction value. State Bank Freedom Premium, the new GPRS based mobile banking service has been rolled out.

SBI has launched mobile technology based prepaid payment services under the brand name of State Bank MobiCash on pilot basis in Delhi and Mumbai Circles of the bank.

(iii) Internet Banking:

Internet banking service is available through www.onlinesbi.co.in for both retail and corporate customers of the bank. Retail Internet Banking: SBI 'Instapay' for utility bills payment, Corporate Internet Banking: CINB Saral- a simplified single user Corporate Internet Banking facility for small entrepreneurs etc. have been added during the year.

C. Foreign Offices:

137 branches in 24 countries, including 2 OBUs in India, run their operations on a common banking applications software, with their databases connected to a Central Data Centre backed up by a synchronized Disaster Recovery Site. All foreign offices use Internet Banking channel and 130 ATMs at various locations abroad cater
to the Bank’s overseas customers with most of the ATMs connected to the centralized ATM Switch in India.

D. Enterprise Data Warehouse:

The second phase of Enterprise Data Warehouse Project is under implementation. Dashboards have been developed and deployed to facilitate decision making by top executives of the Bank. Campaign Management tool has been implemented and campaigns through emails/SMS have been launched by various Business Units targeting customers under various segments.

E. Payment System Group:

NEFT and RTGS continue to remain the most cost-effective and efficient modes for remittance. Our Bank has maintained 2nd position as on 31st March 2012 with market share of 13.70% in NEFT and continues to be the market leader in RTGS with a share of 13.85% as on 31st March 2012. Cheque Truncation System (CTS) has been implemented in Chennai which will become part of the southern Grid for CTS. Swift Gateway has been centralized by shifting UK, US and Frankfurt operations to Swift Operation Centre, Mumbai.

F. Networking:

The Bank has implemented a secured, robust WAN architecture network built with equipment owned by SBI, connecting branches/offices and ATMs of State Bank Group through leased lines, VSATs and CDMA technology. While leased lines have been procured for the primary link for connectivity, ISDN lines or VSAT's have been provided as backup. Wherever leased lines have not been found feasible, VSAT's have been provided to the branches for connecting to Bank's network. The bandwidth for VSATs is being upgraded from 32 kbps to 64 kbps at all locations. The Bank is also exploring alternate technologies like 3G, CDMAEVDO, etc. to provide alternate
connectivity. The Bank proactively monitors the bandwidth utilization and upgrades wherever warranted. The Bank has in operation a state of the art video conferencing facility connecting all administrative offices and important branches.

3.1.7 Overseas Expansion

The number of foreign offices increased from 156 as on 31st March 2011 to 173 as on 31st March 2012 spread across 34 countries. The offices comprised 50 branches, 8 Representative Offices, 103 offices of the six foreign banking subsidiaries and 12 other offices.

3.1.8 Customer Service Quality Initiatives

- The Grievance Redressal Policy of the Bank is based on the Model Policy Framed by Indian Bank’s Association and provisions of the revised Code of Commitments to Customers released by Banking Codes and Standards Board of India. The Bank has been able to redress majority of the customer grievances within a maximum period of three weeks of receipt as against the time limit of 30 days. Bank has also been able to resolve almost all ATM related complaints within the RBI stipulated period of 7 days.

- The Standing Committee on Customer Service constituted at the Local Head Offices with representatives from customers including Senior Citizens review the overall position of Customer Service in the Circle. Analysis of the consolidated data for Customer Grievances for all Circles is being put up to the Customer Service Committee of the Central Board every quarter to identify common systemic issues that require rectification, and also review the remedial measures taken by the Bank for improving the Customer Service.
• The web based Complaint Management System (CMS), launched in December 2009 for early resolution of ATM related complaints, and has since been extended to accept all types of complaints. The customers can register their complaints at the Toll Free number of Contact Centre or online at www.sbi.co.in and obtain a unique complaint number which helps them to trace the status of complaints thereafter through Contact Centre.

• The Bank also has a mobile and web based service for customer grievance redressal - 'SMS Unhappy Service’ with resolution within 48 hours.

3.1.9 Accolades

All the efforts have received wide attention and appreciation. SBI has been awarded the “Best Trade Finance Bank in India” Award for 2012 by The Asian Banker. The year 2011-12 saw the CSR activities of the Bank scaling new heights of achievement and glory with the Bank winning the prestigious Golden Peacock Award for Corporate Social Responsibility 2012, awarded in Dubai by the Institute of Directors, New Delhi.

3.1.10 SWOT Analysis

“SWOT is an acronym for the internal Strengths and Weaknesses of a firm and the environmental Opportunities and Threats facing that firm. SWOT analysis is a widely used technique through which managers create a quick overview of a company’s strategic situation. The technique is based on the assumption that an effective strategy derives from a sound “fit” between a firm’s internal resources (strengths and weaknesses) and its external situation (opportunities and threats). A good fit maximizes a firm’s strengths and
opportunities and minimizes its weaknesses and threats. Accurately applied, this simple assumption has powerful implications for the design of a successful strategy.”

State Bank of India (SBI) is the leading commercial bank in India, offering services such as retail banking, commercial banking, international banking and treasury operations. The bank is an integral part of State Bank Group, which includes seven other banks and offers additional services such as mutual funds and insurance. The bank primarily operates in India. It is headquartered in Mumbai, India and employs about 179,205 people.

**Internal Factors**

a) **Strengths**

- Strong domestic market position sustaining reach and customer confidence.
- Strong capital position helping pursue growth initiatives.
- SBI merger further hastens SBI and its associate banks merger and helping defend its leadership position.

b) **Weaknesses**

- Reduction in the asset quality increasing nonperforming assets ratio.
- Susceptible to political interventions.

**External Factors**

c) **Opportunities**

- SBI could be the highest beneficiary from the increasing adoption of E-transactions.
- Investments in Information Technology will decrease transaction costs of SBI. New business initiative will expand the market share and increase the revenues.
- Growth in general insurance industry will help increasing the market share.
d) Threats

- Opening of Indian Banking Sector will cause intense competition.
- Global economic slowdown could reduce demand for banking services in India.

3.2 HOUSING DEVELOPMENT FINANCE CORPORATION BANK (HDFC BANK)

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

HDFC Bank's mission is to be a World-Class Indian Bank. The objective is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services for target retail and wholesale customer segments, and to achieve healthy growth in profitability, consistent with the bank's risk appetite. The bank is committed to maintain the highest level of ethical standards, professional integrity, corporate governance and regulatory compliance. HDFC Bank's business philosophy is based on four core values - Operational Excellence, Customer Focus, Product Leadership and People.
3.2.1 CBoP & Times Bank Amalgamation

On May 23, 2008, the amalgamation of Centurion Bank of Punjab with HDFC Bank was formally approved by Reserve Bank of India to complete the statutory and regulatory approval process. As per the scheme of amalgamation, shareholders of CBoP received 1 share of HDFC Bank for every 29 shares of CBoP.

The merged entity will have a strong deposit base of around Rs. 1,22,000 crore and net advances of around Rs. 89,000 crore. The balance sheet size of the combined entity would be over Rs. 1,63,000 crore. The amalgamation added significant value to HDFC Bank in terms of increased branch network, geographic reach, and customer base, and a bigger pool of skilled manpower.

In a milestone transaction in the Indian banking industry, Times Bank Limited (another new private sector bank promoted by Bennett, Coleman & Co. / Times Group) was merged with HDFC Bank Ltd., effective February 26, 2000. This was the first merger of two private banks in the New Generation Private Sector Banks. As per the scheme of amalgamation approved by the shareholders of both banks and the Reserve Bank of India, shareholders of Times Bank received 1 share of HDFC Bank for every 5.75 shares of Times Bank.

3.2.2 Distribution Network

HDFC Bank is headquartered in Mumbai. As of June 30, 2012, the Bank’s distribution network was at 2,564 branches and 9,709 ATMs in 1,416 cities as against 2,111 branches and 5,998 ATMs in 1,111 cities as of June 30, 2011. Moreover, HDFC Bank's ATM network can be accessed by all domestic and
international Visa/MasterCard, Visa Electron/Maestro, Plus/Cirrus and American Express Credit/Charge cardholders.

All branches are linked on an online real-time basis. Customers in over 500 locations are also serviced through Telephone Banking. The Bank's expansion plans take into account the need to have a presence in all major industrial and commercial centers where its corporate customers are located as well as the need to build a strong retail customer base for both deposits and loan products. Being a clearing/settlement bank to various leading stock exchanges, the Bank has branches in the centers where the NSE/BSE has a strong and active member base.

3.2.3 Management

Mr. C.M. Vasudev has been appointed as the Chairman of the Bank with effect from 6th July 2010. Mr. Vasudev has been a Director of the Bank since October 2006. A retired IAS officer, Mr. Vasudev has had an illustrious career in the civil services and has held several key positions in India and overseas, including Finance Secretary, Government of India, Executive Director, World Bank and Government nominee on the Boards of many companies in the financial sector.

The Managing Director, Mr. Aditya Puri, has been a professional banker for over 25 years and before joining HDFC Bank in 1994 was heading Citibank's operations in Malaysia.

The Bank's Board of Directors is composed of eminent individuals with a wealth of experience in public policy, administration, industry and commercial banking. Senior executives representing HDFC are also on the Board.
Senior banking professionals with substantial experience in India and abroad head various businesses and functions and report to the Managing Director. Given the professional expertise of the management team and the overall focus on recruiting and retaining the best talent in the industry, the bank believes that its people are a significant competitive strength.

3.2.4 Capital Structure

As on 31st March, 2012 the authorized share capital of the Bank is Rs. 550 crore. The paid-up capital as on the said date is Rs. 469, 33, 76,540 (234, 66, 88,270 equity shares of Rs. 2/- each). The HDFC Group holds 23.15% of the Bank's equity and about 17.29 % of the equity is held by the ADS / GDR Depositories (in respect of the bank's American Depository Shares (ADS) and Global Depository Receipts (GDR) Issues). 30.68 % of the equity is held by Foreign Institutional Investors (FIIs) and the Bank has 4, 47,924 shareholders.

The shares are listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited. The Bank's American Depository Shares (ADS) are listed on the New York Stock Exchange (NYSE) under the symbol 'HDB’ and the Bank's Global Depository Receipts (GDRs) are listed on Luxembourg Stock Exchange under ISIN No US40415F2002.

The Bank’s total Capital Adequacy Ratio (CAR) as at June 30, 2012, (computed as per Basel II guidelines) stood at 15.5% as against the regulatory minimum of 9.0%. Tier-I CAR was 10.9% as of June 30, 2012.
3.2.5 Financial Performance

The financial performance of HDFC Bank during the financial year ended March 31, 2012 remained healthy with total net revenues (net interest income plus other income) increasing by 17.9% to 17,540.5 crore from 14,878.3 crore in the previous financial year. Revenue growth was driven by an increase in both, net interest income and other income. Net interest income grew by 16.6% due to acceleration in loan growth to 22.2% coupled with a net interest margin (NIM) of 4.2% for the year ending March 31, 2012.

From May 2011, the RBI mandated that interest payable on savings deposits be increased to 4% from 3.5%, which resulted in an impact of approximately 10-11 basis points on the bank’s Net Interest Margins (NIM). Further, in November 2011, the same was de-regulated by RBI. Some of the small private sector banks increased the savings bank interest rate in the range of 6-7%, while most other banks maintained their savings deposit rate at 4%. In spite of price based competition, HDFC Bank witnessed a strong growth of 16.6% in its savings deposits. Further, due to tight liquidity conditions that were prevalent in the monetary system during the financial year ended March 31, 2012, HDFC Bank witnessed an increase of about 100 basis points in its retail term deposit rates during this period. Your Bank has however maintained steady NIMs by managing the yields across its various customer and product segments in line with its cost of funds. Other income grew 21.0% over that in the previous year to ` 5,243.7 crore during the financial year ended March 31, 2012. This growth was driven primarily by an increase in fees and commissions earned and income from foreign exchange and derivatives, offset in part by a loss on sale / revaluation of investments of ` 195.9 crore as compared to a loss of ` 52.6 crore in the previous financial year.
In the financial year ended March 31, 2012, commission income increased by 18.9% to `4,275.5 crore with the primary drivers being commissions from the distribution of fees on debit and credit cards, transactional charges and fees on deposit accounts and processing fees on retail assets. Regulatory changes resulted in the capping of earnings from the distribution of insurance products; however the increase in your Bank’s sales volumes partly made up for the reduction in unit commissions, exchange and derivatives revenues grew by 44.8% from `786.3 crore in the previous financial year to `1,138.9 crore in the financial year ended March 31, 2012, primarily due to higher customer flows and also higher earnings from trading arising out of large volatility in foreign exchange markets through the year. Operating (non-interest) expenses increased from `7,152.9 crore in the previous financial year to `8,590.1 crore in the year under consideration. During the year HDFC Bank opened 558 new branches and over 3,400 ATMs which resulted in higher infrastructure and staffing expenses. As a result, the ratio of operating cost to core net revenues (excluding bonds gains / losses) increased to 48.4% during the financial year ended March 31, 2012, from 47.9% in the previous year. Total loan loss provisions consisting of specific provisions for non-performing assets and floating provisions decreased from `1,433.0 crore to `1,351.6 crore for the financial year ended March 31, 2012, on account of healthy asset quality across both retail and wholesale customer segments.

HDFC Bank’s provisioning policies for specific loan loss provisions remain higher than regulatory requirements, the coverage ratio based on specific provisions alone without including write-offs was 82.4% and that including general and floating provisions was 199.7% as on March 31, 2012. The Bank made general provisions of `150.5 crore during the financial year ended March 31, 2012. HDFC Bank’s profit after tax increased by 31.6% from `3,926.4 crore in the previous financial year to `
5,167.1 crore in the year ended March 31, 2012. Return on average net worth was 18.4% while the basic earnings per share increased from ` 17.00 to ` 22.11 per equity share. As at March 31, 2012, Bank’s total balance sheet size was ` 337,909 crore and increase of 21.8% over ` 277,353 crore as at March 31, 2011. Total Deposits increased 18.3% from ` 208,586 crore as on March 31, 2011 to ` 246,706 crore as on March 31, 2012. Savings account deposits grew by 16.6% to ` 73,998 crore while current account deposits were at ` 45,408 crore as on March 31, 2012. Adjusting current account deposits for one offs, as at March 31, 2011, amounting to ` 4,000 crore, the growth was 6.9%. The proportion of core current and savings deposits (CASA) to total deposits was at 48.4% as on March 31, 2012.

During the financial year under review, gross advances grew by 22.0% to ` 196,890 crore, while system loan growth was approximately 19%. HDFC Bank’s loan growth was driven by an increase of 33.7% in retail advances to ` 107,126 crore, and an increase of 10.5% in wholesale advances to ` 89,764 crore. The Bank had a market share of 3.9% in total system deposits and 4.3% in total system advances. The Bank’s Credit Deposit (CD) Ratio was 79.2% as on March 31, 2012.

3.2.6 ASSET QUALITY

Asset quality remained healthy and stable with gross non-performing assets as on June 30, 2012, at 1.0% of gross advances, and net non-performing assets at 0.2% of net advances as of June 30, 2012. The Bank’s provisioning policies for specific loan loss provisions remained higher than regulatory requirements. The NPA coverage ratio based on specific provisions (not including write-offs, technical or otherwise) was at 81% as on June 30, 2012. Total restructured loans (including
applications received and under process for restructuring) were at 0.3% of gross advances as of June 30, 2012.

3.2.7 International Operations

The Bank has a wholesale banking branch in Bahrain, a branch in Hong Kong and two representative offices in UAE and Kenya. The branches offer the Bank’s suite of banking services including treasury and trade finance products to its corporate clients. Your Bank has built up an asset book over USD 1.7 billion through its overseas branches. The Bank offers wealth management products, remittance facilities and markets deposits to the non-resident Indian community from its representative offices.

3.2.8 Information Technology

Since its inception, HDFC Bank has made and continues to make substantial investments in its technology platform and systems, built multiple distribution channels, including an electronically linked branch network, automated telephone banking, internet banking and banking through mobile phones, to offer its customers convenient access to various products. During this financial year, the bank has made further strides in adding more capability to the internet banking platform, launched mobile banking for 2G customers and launched applications for various mobile platforms. The Bank has templatized credit underwriting through automated customer data de-duplication and real-time scoring in its loan origination process. Having enhanced its cross selling and up-selling capabilities through data mining and analytical customer relationship management solutions, the Bank’s technology enables it to have a 3600 view of its customers. The Bank employs event detection
technology based customer messaging and has deployed an enterprise wide data warehousing solution as a back bone to its business intelligence system. Implementation of risk management engine for internet transactions coupled with various multi factor authentications has reduced the phishing attacks significantly.

The bank has also implemented a digital certificate based security engine for corporate internet banking customers. Credit and debit cards usage of the Bank’s customers is secured by powerful proactive risk manager technology solutions which does rules based SMS alerts as well as prompts customer service representatives to call the customer on detecting abnormal usage behavior. This prevents frauds and minimizes losses to customers, if the card has been stolen and yet to be hot listed.

Sophisticated automated switch-over and switch-back solutions power the Bank’s Business Continuity and Disaster Recovery management strategy for core banking and other key applications. The bank conducts drills periodically to upgrade this capability and to improve the availability of your Bank’s services to its customers.

With the various initiatives that the Bank has taken using technology, it has been successful in driving the development of innovative product features, reducing operating costs, enhancing customer service delivery and minimizing inherent risks.

In April 2011, RBI issued Guidelines on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds and provided recommendations for implementation. The Bank remains committed towards complying with the requirements outlined in the guidelines and instituted a senior level internal team to oversee the implementation program for complying with the guidelines. The team supervised the various domains, performed gap analysis, and prepared remediation plan for each area where gaps were observed. Significant progress has been made
towards remediation over the year and this has been reported to the board on a quarterly basis.

3.2.9 Service Quality Initiatives

HDFC Bank was one of the few banks in the country to have put in place a team dedicated to improve service quality through the Lean and Six Sigma methodologies with a focus on right origination, cost effective and error free operations and effective complaint resolution. The Bank continued driving improvements in Service Quality (SQ) initiatives encompassing all customer touch points namely branches, ATMs, phone banking, net-banking, e-mail service as well as back office support functions impacting customer service through a dedicated Quality Initiatives Group (QIG) team. Some of the key elements covered by the QIG team are workplace management, etiquette and courtesy, lobby management, complaints management, management of turnaround times, overall customer service and compliance with the Bank’s internal processes as well as regulatory compliance. The group also runs programs such as ‘voice of the customer’ and ‘voice of the employee’ for effective complaint resolution and process improvement.

Various departments of the Bank are empowered to deliver superior customer experience through improvements in products, processes and people skills. In addition to above, HDFC Bank continued with the ongoing service quality initiatives which include the audit of services as well as mystery shopping at various customers touch points to capture and improve customer experiences extending them to all new branches / centers. The Bank has also set up a robust training mechanism; both on the online platform as well as using conventional class room sessions, to enable its
employees improve the quality of customer service. Under the institutional drive
called “Transformation of Customer Service” the Bank is benchmarking with the best
in class service providers in the banking space and launch newer and better products
and services to delight the customers. To this effect, the Bank has designed and
implemented customized Lean Sigma Project Management (LSPM) methodology that
incorporates the Lean philosophy into the Six Sigma framework to deliver faster and
sustainable results clubbed with customer delight and improved profitability.
The Bank also takes advantage of various information technology platforms to
improve products, processes and services. HDFC Bank does not believe in designing
a product and fitting it into the customers’ needs rather it designs products to meet
customer needs. The Bank has always ensured that its products and services are
delivered through processes which are in line with the prevalent regulatory framework
and has adequate controls to safe-guard against possible misuse. The Bank has taken
various steps to improve the effectiveness of its Grievance re-dressal mechanism
across its delivery channels. Some key measures taken up by the Bank include a three
layered Grievance re-dressal mechanism, bank-wide online complaint resolution
system, and root cause remediation, customer service committees at the branch level
and at the corporate headquarters level with representation from customers. The levels
of customer service are periodically reviewed by the board of directors of the Bank.
All these have helped in consistent reduction in the total number of customer
complaints and the same is reflected in written appreciations received from the
various offices of honorable Banking Ombudsman (BO) appointed by the Reserve
Bank of India. In order to ensure continued focus on customer service through
standardized and controlled processes, the Bank has achieved coveted the ISO
9001:2008 Certification of the grievance handling processes of the bank.
3.2.10 Accolades 2011 - 2012

The Asian Banker International Excellence in Retail Financial Services Awards

• Best Retail Bank in India
• Best Banc assurance business in India
• Best Risk Management in India

Business world Best Bank Awards

• Best Bank

CNBC TV18 Best Bank and Financial Institution Awards

• Best Bank
• Aditya Puri - Outstanding Finance Professional

CNBC TV18 Financial Advisor Awards

• Best Performing Bank (Private)

DSCI (Data Security Council of India) Excellence Awards

• Security in Bank

Dun & Bradstreet Banking Awards

• Best Private Sector Bank - SME Financing

Euro money Awards for Excellence

• Best Bank in India

Finance Asia Country Awards

• Best Bank in India
• Best Cash Management Bank in India
• Best Trade Finance Bank in India

Financial Express Best Bank Survey

• Best in Strength and Soundness
Institute of Chartered Accountants of India Awards

• Excellence in Financial Reporting

International Data Corporation Financial Insights Innovation Awards

• Excellence in Customer Experience

3.2.11 Businesses

HDFC Bank offers a wide range of commercial and transactional banking services and treasury products to wholesale and retail customers. The bank has three key business segments:

Wholesale Banking Services

The Bank's target market ranges from large, blue-chip manufacturing companies in the Indian corporate to small & mid-sized corporate and agri-based businesses. For these customers, the Bank provides a wide range of commercial and transactional banking services, including working capital finance, trade services, transactional services, cash management, etc. The bank is also a leading provider of structured solutions, which combine cash management services with vendor and distributor finance for facilitating superior supply chain management for its corporate customers. Based on its superior product delivery / service levels and strong customer orientation, the Bank has made significant inroads into the banking consortia of a number of leading Indian corporate including multinationals, companies from the domestic business houses and prime public sector companies. It is recognized as a leading provider of cash management and transactional banking solutions to corporate customers, mutual funds, stock exchange members and banks.
Retail Banking Services

The objective of the Retail Bank is to provide its target market customers a full range of financial products and banking services, giving the customer a one-stop window for all his/her banking requirements. The products are backed by world-class service and delivered to customers through the growing branch network, as well as through alternative delivery channels like ATMs, Phone Banking, Net Banking and Mobile Banking.

The HDFC Bank Preferred program for high net worth individuals, the HDFC Bank Plus and the Investment Advisory Services programs have been designed keeping in mind needs of customers who seek distinct financial solutions, information and advice on various investment avenues. The Bank also has a wide array of retail loan products including Auto Loans, Loans against marketable securities, Personal Loans and Loans for Two-wheelers. It is also a leading provider of Depository Participant (DP) services for retail customers, providing customers the facility to hold their investments in electronic form.

HDFC Bank was the first bank in India to launch an International Debit Card in association with VISA (VISA Electron) and issues the MasterCard Maestro debit card as well. The Bank launched its credit card business in late 2001. By March 2010, the bank had a total card base (debit and credit cards) of over 14 million. The Bank is also one of the leading players in the “merchant acquiring” business with over 90,000 Point-of-sale (POS) terminals for debit / credit cards acceptance at merchant
establishments. The Bank is well positioned as a leader in various net based B2C opportunities including a wide range of internet banking services for Fixed Deposits, Loans, Bill Payments, etc.

**Treasury**

Within this business, the bank has three main product areas - Foreign Exchange and Derivatives, Local Currency Money Market & Debt Securities, and Equities. With the liberalization of the financial markets in India, corporate need more sophisticated risk management information, advice and product structures. These and fine pricing on various treasury products are provided through the bank's Treasury team. To comply with statutory reserve requirements, the bank is required to hold 25% of its deposits in government securities. The Treasury business is responsible for managing the returns and market risk on this investment portfolio.

**3.2.12 SWOT Analysis**

HDFC Bank is a new generation private sector bank in India which specializes in the provision of banking and other financial services to upper and middle income individuals and corporations. The company's services include retail, commercial and electronic banking products. It also provides treasury services and capital markets infrastructure. The bank's franchise strength and market recognition in India and abroad enables the bank to get better and easy access to interbank markets in India and abroad as well. However, relative lack of scale is hampering the bank’s competitive strengths against its domestic peers.
Strengths Weaknesses

Relative lack of scale hampering competitive strengths

Franchise strength and market recognition in India and abroad

Diversified revenue streams check financial deterioration

Increasing asset quality performance volatility

Increasing capital strength provides higher risk tolerance

Opportunities Threats

Investments in ICT could boost financial performance

Intense competition likely to erode margins

Likely scenario of increasing interest rates

Growing Indian financial services sector in India

Positive outlook of the Indian economy

Increasing regulatory spending

Citibank fraud case exposes systemic risks in banking which could affect customer trust

a) Strengths

Franchise strength and market recognition in India and abroad

HDFC Bank is a new generation private sector bank which specializes in the provision of banking and other financial services. It is the second largest private sector bank in India. The company is a part of the HDFC group of companies. Housing Development Finance Corporation, the flagship company of the group and its subsidiaries, owned 23.2% of its outstanding equity shares as of December 31, 2011.

The bank has grown rapidly since commencing operations in January 1995. In the six years ended March 31, 2011, it expanded its operations from 467 branches and 1,147 ATMs in 211 cities to 1,986 branches and 5,471 ATMs in 996 cities. During the same six years, its customer base grew from 6.8 million customers to over 19.5
million customers. The assets have grown from INR535.5 billion ($11.3 billion) in FY2005 to INR2, 773.5 billion ($60.5 billion) in FY2011. The bank received Asian Banker Excellence Awards 2009 - Best retail bank in India (4th year in a row) in FY2010. The bank was ranked globally at 242 in the 2009 list of the world’s top 1,000 banks compiled by trade magazine ‘The Banker’. Franchise strength and market recognition in India and abroad enables the bank to get better and easy access to interbank markets in India and abroad as well.

Diversified revenue streams check financial performance volatility

The bank’s revenue streams have been diversifying and the dependence on wholesale banking has been declining over the last few years. In FY2011, the company’s dependence on wholesale banking declined to 29.8%, compared to 32.6% in FY2009 or 34% in FY2008. At the same time, contribution from retail banking increased to 50% in FY2011, compared to 45.7% in FY2009 or 42% in FY2008.

Diversified revenue streams have helped the bank check volatility in financial performance.

Increasing capital strength provides higher risk tolerance.

The company’s capital position is improving year on year basis. The tier I capital ratio, which is the measure of the core capital of a bank has improved from 10.30% in FY2008 to 12.23% in FY2011, when calculated in line with the Basel II framework. Consequently, total capital adequacy ratio has improved from 13.6% to 16.2% for the same period, well above the minimum regulatory requirement of 9.0%. The increasing capital strength provides higher risk tolerance and opportunities for further expansion.
b) Weaknesses

Relative lack of scale hampering competitive strengths HDFC Bank lacks scale to compete with certain domestic peers. Although, it has nation-wide presence in India, however, the number of its branches is far less than that of State Bank of India and ICICI Bank Limited. The bank’s lack of scale is also evident from market capitalization, revenue, profits and number of branches. For instance, in FY2011, State Bank of India recorded revenues of INR1, 478,439.2 million (approximately $32,229.9 million), net income of INR1, 11,799.4 million ($2,437.2 million) and has approximately 12,500 branches. Relative lack of scale is hampering the bank’s competitive strengths against its domestic peers.

Deteriorating asset quality

The bank’s asset quality as indicated by nonperforming loans has decreased over the last few years. The loan loss provision increased to INR19, 389.3 million ($409.3 million) in FY2010 from INR 8,610.1 million ($181.8 million) in FY2007. This increase in the provisions is basically to absorb the estimated losses inherent in the loan portfolio. At the same time, gross non-performing customer assets as a percentage of gross customer assets stood at 1.50% compared to 1.20% during the same period.

The increase in nonperforming assets is due to higher unemployment rate and an increasing number of borrowers facing difficulty meeting their debt obligations. Though loan loss provisions declined significantly in FY2011, gross and net NPA development remained much to be desired. Increasing nonperforming assets and provisions for loan losses reduces profitability of the company.
c) Opportunities

Investments in ICT could boost financial performance HDFC Bank has been increasing its investments into information and communication technology (ICT) in the last few years ending FY2010. For instance, in June 2009, the bank implemented layered components of the RSA Identity Protection and Verification Suite to provide a fraud prevention platform for protection against online threats. In August 2009, the bank implemented Enterprise Business Rule Engine from Polaris Software for its retail asset lending business comprising auto and personal loans. This deployment enables HDFC Bank to target customers and manage credit risks.

Further in October 2010, the bank’s management announced plans to invest in ICT infrastructure as part of capital expenditure plan of approximately INR5.9 billion ($131.4 million) for the fiscal year ending March 31, 2011. The company had capital expenditure of INR6 billion ($133.6 million) in fiscal 2010, INR6.9 billion ($153.7 million) in fiscal 2009, and INR6.5 billion ($144.8 million) in fiscal 2008. Investments in ICT could boost the company’s financial performance by increasing its sales, and also by decreasing its long term expenditure on credit disbursement, collection and management systems.

Growing Indian financial services sector Since liberalization in 1991, Indian financial services sector has maintained double digit growth.

Financial sector is estimated to have contributed 15% to India's GDP in FY2009. The sector is projected to grow around 20% during 2009-14. Several factors could contribute to this growth. For instance, technological advancements like mobile, SMS, and internet banking will help banking sector to maintain the high growth rate in the coming decade. Another initiative, Unique Identity (UID) project, renamed Aadhar, which is intended to provide 16 digit identity numbers to more than a billion
Indians, is likely to spur the growth of a business ecosystem around it. The Aadhar number is likely to be rolled out to around 600 million citizens in the next 4-5 years ending 2014. Financial services companies including banks and insurance stand to gain an estimated combined new customer base of over 125 million. Aadhar project could also enhance the success of non-traditional service channels, such as mobile banking, point of sale, ATMs etc, engaged by financial institutions.

HDFC is the second largest private sector bank in India and the growing Indian banking sector could help the bank to exploit the opportunities.

Positive outlook of the Indian economy

India accounts for a significant chunk of the bank’s revenues. After witnessing a significant slowdown in the fiscal year ended March 31, 2009, the Indian economy bounced back impressively during the last financial year. International Monetary Fund (IMF) has projected a very positive growth outlook for the economy. According to the IMF, economy is likely to grow at a rate of 9.7% for 2010 and 8.4% for 2011, when measured in terms of real GDP. The positive outlook of the Indian economy will throw a lot of opportunities.

d) Threats

Intense competition likely to erode margins

Indian banking sector is highly competitive. The bank faces strong competition in all of its principal lines of business. The bank’s primary competitors are large public sector banks, other private sector banks, foreign banks and, in some product areas, non-banking financial institutions. In retail banking, its principal competitors are the large public sector banks, which have much larger deposit bases and branch networks, other new generation private sector banks, old generation private sector banks, foreign banks and non-banking finance companies in the case of retail loan products. In
mutual fund sales and other investment related products, its principal competitors are brokers, foreign banks and new private sector banks.

In wholesale banking, the bank has to compete with public and new private sector banks as well as foreign banks. The large public sector banks have traditionally been the market leaders in commercial lending. Foreign banks have focused primarily on serving the needs of multinational companies and Indian corporations. Intense competition may put more pressure on the group's revenues and could result in a loss of market share. Likely scenario of increasing interest rates in India Interest rates are currently rising and there is a possibility that they will rise further due to many macroeconomic factors including the monetary policy of central bank, deregulation of the financial sector, domestic and international economic and political conditions and other factors. Moreover, persistent inflationary pressures may drive the central bank to tighten interest rates to a level that could constrain future growth. If interest rates increase and demand for loans is negatively affected, they may not be able to achieve its volume growth, which would adversely affect its net income. Any volatility in interest rates could adversely affect the bank’s net income.

In the wake of the current financial crisis, regulators across the world have become more stringent for strengthening global capital and liquidity regulations with the goal of promoting a more resilient international banking sector. The Group of Central Bank Governors and Heads of Supervision, the oversight body of the Basel Committee, announced a comprehensive set of measures to strengthen the regulation, supervision and risk management of the banking sector. The reforms will fundamentally impact the profitability and business models of many banks, as well as mandating significant process and systems changes.
Citibank fraud case exposes systemic risks in banking which could affect customer trust

The Citibank fraud case valued at INR3, 000 million was unearthed in late 2010. In this particular scam, Citibank’s relationship manager Shivraj Puri allegedly cheated investors by asking them to deposit money into accounts managed by him. He promised to invest it in schemes that offered very high interest within a short span of time. He reportedly managed to swindle companies and high net worth individuals after forging Securities and Exchange Board of India (SEBI) documents that could back his claims. Though this scam doesn’t involve domestic banks, it is likely to affect customers’ confidence on relationship managers representing their respective banks.