CHAPTER - 4
RISKS AS PERCEIVED BY THE BANK

The present issue of Equity Shares carries the following normal business risks associated with the activities of Indian commercial banks.

1. INTEREST RATE RISK

With the current trend towards deregulation, the interest rates on deposits and advances which are, at present, based on the directives of the Reserve Bank of India are likely to become market driven and existing margins may come under pressure. State Bank has been planning ahead to meet these challenges by reducing operating costs through various measures including technology upgradation, systemic refinements, organisational restructuring etc.

2. RISKS FROM OVERSEAS OPERATIONS

State Bank of India has an overseas network of 47 offices in 31 countries. Any changes announced in the Governmental policies of countries where the Bank's international branches are located may affect the operations of those branches adversely. However, State Bank Management information Systems are comprehensive and its control and
supervision over the foreign branches adequate to mitigate the effects of such changes.

3. LENDING RISKS

Companies financed by State Bank for their working capital requirement could be affected adversely to various degrees, by a range of factors-economic, social and financial as well as by Government policies. Further, companies granted term finance could find their projects facing delay in implementation, overruns etc. State Bank takes adequate care to minimise the impact of such possibilities by having a well diversified loan portfolio and setting internal limits for exposure to various industry/business groups as well as to specific entities.

4. CHANGES IN GOVERNMENT/RBI POLICIES

Major changes in Government/Reserve Bank Policies relating to the Banking sector are likely to have an impact on the operations of Indian Banks, including State Bank of India. However, the bank is equipped to take appropriate steps to pursue all acceptable business opportunities in order to maintain and improve its profitability.
5. COMPETITION RISKS

With the preset trend towards deregulation and the opening out of the commercial banking environment, competition is likely to increase significantly. Several Prominent existing Financial Institutions have received permission to start their own banks; several other large Industrial Houses have similar plans on the anvil. State Bank is conscious of these changes and aware of their significance and, in fact, welcomes them. State Bank believes in the positive nature of market forces and sees this as an opportunity to further improve the quality of its services.

6. DISINTERMEDIATION RISKS

As the financial markets mature, the trend towards disintermediation would be increasingly in evidence. In such a scenario, many companies may access the capital and money markets for their needs and reduce their direct dependence on the banking system. This may have an adverse impact on the level of deposits and also on the mix of the advances portfolio and the profitability of banks. However in India, at least for some years to come, the capital and money
markets may not be in a position to meet the entire needs of the corporate sector; the banking sector is expected to continue to play a vital role, State Bank of India expects to meet the situation by refubishing its Management Information Systems and further honing the credit appraisal skills to attract the best quality assets, besides increasing its fee income by diversifying its services taking advantage of its vast branch network and introducing new products.

BUSINESS OF THE STATE BANK

Section 32, 33, 34 and 35 of Chapter VI of the SBI Act, 1955 provided that--

STATE BANK TO ACT AS AGENT OF THE RESERVE BANK

32(1) The State Bank shall, if so required by the Reserve Bank, act as agent of the Reserve Bank at all places in India where it has a branch or where there is a branch of subsidiary bank, and where there is no branch of the banking department of the Reserve Bank, for--

a. Paying, receiving, collecting and remitting money, bullion and securities on behalf of any Government in India; and

b. Undertaking and transacting any other business which the Reserve Bank may from time to time entrust to it.
32.(4) The State Bank may transact any business or perform any functions entrusted to it under sub-section (1) (by itself or through a subsidiary bank) or through an agent approved by the Reserve Bank.

33. Other Business Which The State Bank May Undertake

Subject to the other provisions contained in this Act, the State Bank may carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949 and may engage in one or more of the other forms of business specified in sub-section (1) of section 6 of that Act).

Clause (b) Section 5 of the Banking Regulation Act, 1949 states - "Banking" means the accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.

34.(6) Business which the State Bank may not transact

Save as otherwise provided in (this Act), the State Bank shall not own or acquire
any immovable property except for the purpose of providing buildings or other accommodation in which to carry on the business of the State Bank or for providing residences for its officers and others employees:

Provided that if any such building or other accommodation is not immediately required for any of the purposes of the State Bank, the State Bank may utilize it to the best advantage by letting it out or in any other manner.

35. STATE BANK may acquire the business of other banks

(1) The State Bank may, with the sanction of the Central Government, and shall, if so directed by the Central Government in consultation with the Reserve Bank, enter into negotiations for acquiring the business, including the assets and liabilities, of any banking institution.
ACTIVITIES

In the course of its business as a Commercial Bank, State Bank of India, at the primary level accepts funds to be placed into various kinds of deposit accounts; the total amount of such deposits at the end of March 1993 amounted to Rs. 66.317 Crores. State Bank's domestic deposits represent around 22% of the deposits with the entire banking system. Its loan portfolio on the same date stood at Rs. 47.695 Crores. The domestic advances of the Bank form about 25% of the total loans granted by Banks in India. The major activities of State Bank of India are furnished below:

BANKER TO THE GOVERNMENT

State Bank handles a significant part of the day to day banking business of both the Central and State Governments and is the main bankerto most of the public sector corporations set up after independence whether in trading, manufacturing, marketing or servicing. State Bank plays a major role in financing the procurement of grains and other commodities like cotton, jute and tobacco. Also the Bank is often solely designated by the Government of India to
handle special schemes such as Gold Bonds, Gold Repleishment Schemes (against export of jewellery), the National Deposit Scheme etc.

INDUSTRIAL FINANCE

State Bank plays a vital role in providing to Indian Industry, working capital and term finance, which in the last three decades has grown significantly from a negligible base, now to a level of about Rs. 24,000 Crores or over 50% of the State Bank's total advances. State Bank's involvement encompasses among others, both heavy and core industrial sectors (heavy manufacturing and engineering, Steel, Chemicals and fertilisers, coal and oil) as well as light engineering and electronics. Specialised attention is paid to the needs of industry through Commercial branches and Industrial Finance Branches which cater to large and medium industries.

INTERNATIONAL BANKING

State Bank's emergence as the leader in international banking business in India is reflected in its present market share which stands at over 39% (as at March 31, 1993). Nearly 492 of its offices in India and 47 offices abroad (spread over 31 countries and covering every time zone) with a network of over 1000 correspondent banks abroad, are actively involved in foreign exchange and international banking operations. The Bank's international operations include developing new markets for Indian exports and encouraging new
export potential within the Country. To intensify these efforts. State Bank has established "Overseas Branches" at Bombay, Calcutta, Delhi, Madras, Bangalore, Cochin, Vishakhapatnam and Varanasi.

Besides this, the following steps have also been taken:

To help Indian Exporters to identify new exports opportunities the Bank has a trade information service in terms of which export opportunities abroad are passed on to prospective exporters.

It has positioned Representative offices at Cairo, Harare, Ho Chi Minh City, Jakarta, Manila, Milan, Moscow, Sao Paulo, Tashkent, Tehran and Washington, who help in identifying export opportunities for Indian exporters and pass on the information to the customers. They also assist Indian exporters during their business visits abroad in negotiating favourable terms.

As part of the services to the exporters, the Bank furnishes credit reports on importers abroad free of cost.

It has conducted a series of commodity studies with a view to finding out new export potential.
It has already opened a Diamond Branch at Bombay to assist Diamond Exports. A tea Cell has been opened at Jorhat Branch to assist small Tea Exporters.

The Bank has a corpus of funds to assist export promotion efforts. In collaboration with India Trade Promotion Organisations, it has recently conducted an Entrepreneur Development programme for Small Exporters at Bombay.

It is also conducting a series of Seminars on ISO 9000/9001/9002 to educate exporter customers on total Quality Management to assist them to export to the European Community.

State Bank has over the past two decades, been assisting imports of capital goods on deferred credit terms and now extends assistance for the export of such goods on similar terms. The Bank helps Indian Corporations and Government raise foreign Currency loans for financing high-value imports such as ships, aircrafts and industrial plants and equipment; as well as for the development and distribution of oil and gas reserves. The Bank has so far assisted its customers by organising composite financial packagers. Euroloan Syndications and rendering advisory services in these matters. The Bank also acts as an advisor to the Government of India and Public/Private sector corporations in regard to Euromarket borrowings.
AGRICULTURAL FINANCE

Committed to promoting growth in rural areas of the country where the majority of India's population is located. State Bank started large-scale financing of agricultural in 1968 and since then has been extending both technical and financial assistance for agriculture and related activities through its network of 427 Agriculture Development Branches and over 6000 of its other Branches. The assistance goes beyond short term credit for seasonal agricultural operations and also covers marketing of agricultural produce, mechanisation and modernisation of farms, provision of irrigation facilities and development of land. State Bank also provides assistance under the "Special Project Agriculture" of the Rural Electrification Corporation for energisation of pumpsets: assistance for fisheries development: development, production, processing and distribution of high yielding and improved varieties of seeds etc. As at 31st March 1993, the Bank's loan portfolio to this sector stood at Rs. 5235 Crores.
INNOVATION & CHANGE

In its existence in different forms spanning over 185 years, State Bank has been responding and adapting to changes in its environment and also innovating and planning ahead to meet the new challenges.

In 1955, it inherited around 400 branches, most of them in urban areas of the country; thereafter branch expansion was focussed on rural and semi-urban areas. Today, State Bank of India with 8691 branches in India, has the largest branch network of any Bank in the world.

(A) SMALL SCALE INDUSTRIAL AND SMALL BUSINESS FINANCE

In 1956, State Bank of India pioneered the Systematic financing of small scale industry and for the first time introduced the concept of need based rather than security oriented finance, a radical departure from conventional banking approaches. In 1967 State Bank introduced the 'Entrepreneur Scheme' under which technically qualified persons are being provided with 100% of the finance required for projects with an outlay upto Rs. 2 Lacs. Subsequently in 1978 the Equity Fund Scheme was introduced to provide equity assistance to new entrepreneurs. To enable these entrepreneurs to solve various routine technical and marketing problems State Bank established its own Consultancy Cells staffed with a mix of its
own officials and professional. These multidimensional approaches have been successful and State Bank's Small industry and Small Business loan portfolio presently stands at Rs. 7.212 Crores, Specialised attention is paid to the financing of small scale industries and small business through, Small industry and Business Branches at selected centres.

(B) AGRICULTURAL FINANCE

As early as 1964, State Bank had begun experimenting with its Rural Pilot Centers Scheme to finance farmers directly at selected centers. By 1972, State Bank pioneered the setting up of Specialised Agricultural Developments Branches and Agricultural Banking Divisions devoted exclusively to the needs of this segment.

(C) MARKET SEGMENTATION

It was in 1971 that State Bank formalised in its organisational structure, the motivating force behind its multifaceted activities-customer needs and their satisfaction. With the assistance of the Indian Institute of Management, Ahmedabad the entire business operations of the Bank were structured in 1972 according to different market segments as each had different requirements from the Bank. Branches were also restructured along these lines and the marketing approach thus adopted over twenty years ago was a significant
change from the then existing practices.

(D) COMMUNITY SERVICES BANKING

An Innovative Banking Department (now known as the Community Services Banking Department) was set up in 1973 at each of the local Head Offices of the Bank to explore the ways in which both banking and non-banking services could be made available to those in special need of these services. Today this has expanded into a strong movement with substantial funding, covering among others, a Children's Welfare Fund & a Research and Development Fund. The former provides assistance to various Institutions taking care of handicapped children belonging to the weaker sections of the community. The latter meets the expenditure connected with the establishment of Chairs in various Universities and Institutions as well as those of agricultural, rural and industrial development projects. Through these activities, the Bank seeks to build up the community in which it functions and to develop each of its branches as a responsible Institutional member of the local society.

(E) PROJECT UPTech

In 1998, State Bank, while focusing its attention on Indian Industry, saw that among its prime needs were the prevention of obsolescence, energy conservation and the need to enhance its global competitiveness to tap the export markets.
An Industrial Technology Group was established to collect and disseminate technological information and to help industrial units to upgrade their technology. Among the areas in which technological upgradation is being pursued is the lac industry established around Ranchi, Internal Combustion Engines and Automotive Components Industry at Kolhapur, Agro Pumpsets at Coimbatore, Rice Huller Mills at Palakkad, foundries at Agra and the Glass Industry at Firozabad. The bank has technical consultancy cells at LHOs manned by professionally qualified and trained officials to extend consultancy support for small and medium enterprises.

(F) LOK PAL

In its efforts at putting customer needs and requirements at the heart of its activities, State Bank has established a grievance redressal system which has been in place since 1984. State Bank has now plans to expand and enlarge this system to include grievance redressal by an ombudsman to be termed State Bank Lok Pal who may also order payment of compensation in appropriate cases.

Innovation and the management of change perceived well in advance, through a structured process of planning is an integral part of State Bank's functioning.
The planned expansion of the business area would contribute significantly to the Bank's ability to grow and increase its profits in the medium term. The Bank thus successfully integrates the roles of a developmental institution and a commercial enterprise.

HOUSEKEEPING

Housekeeping, which includes balancing of books and accounts, has been constantly monitored, registering satisfactory progress. A comprehensive action plan was drawn up during the year 1992-93 for the two-year period 1992-94, for balancing principal and subsidiary accounts of the Bank and for disposal of outstanding entries in office accounts, which is currently being implemented.

SYSTEMS AND TECHNOLOGY

In order to further improve speed and efficiency in operations and to provide prompt service to clients, the Bank, out of 27 of its service Branches, has fully computerised 17 branches while computerisation of the remaining branches is in progress. 90 important branches of the bank have been identified for the purpose of full computerisation. 9 Branches have been fully computerised so far but the pace of implementation is being accelerated. State Bank has already introduced computers at 611 Branches for back office operations and to the provide
essential services to customers. The Bank has decided upon installation of Automated Teller Machines at the four metropolitan centres to provide round-the-clock customers service. Computer systems at controlling offices are being upgraded for efficient data management in the first phase, computers in use at 36 centres have been replaced with advanced RISC-based computers.

COMMUNICATION

SBINET

On the 20th September 1988, the Bank inaugurated its dedicated integrated communications network, known as SBINET. This network is the largest as well as the biggest project of its kind in the Indian Banking Industry.

RABMN

Remote Area Business Message network (RABMN), as satellite based communication network, was introduced in the Bank in 1991 for stable and reliable date communication. As on 31.03.93 as many as 20 centres had been covered. It is proposed to extend this to 9 more centres including 7 remote areas in the North Eastern Region.
SBIDATANET

SBI datanet is a scheme that is being introduced in the first phase at over 200 important branches in the country for efficient funds settlement and forex related operations. This would also provide customers with electronic fund transfer facilities including option for credit on the same day. The scheme is likely to become operational by December, 1993.

SWIFT

State Bank is a member of the Society for Worldwide Inter Bank Financial Telecommunication (SWIFT) which offers cost-effective and fast transmission of financial messages globally. At present 14 branches in India and 10 branches abroad are covered under this scheme.

MANAGEMENT AND CORPORATE PHILOSOPHY

The Bank's affairs are managed by a Board of Directors with appointees of Government of India, nominees from the Government of India, Reserve Bank and elected representatives of private Shareholders.

The Bank's corporate philosophy has been growth with profitability.
INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING NORMS (IRAC NORMS)

The Committee on Financial System under the Chairmanship of Shri M. Narasimham recommended that the policy of income recognition should be objective and based on record or recovery rather than on any subjective considerations. Likewise, the classification of assets has to be done on the basis of objective criteria which would ensure a uniform and consistent application of norms. As regards provisioning requirements, the Committee recommended that provision should be made on the basis of classification of assets under different categories. Based on the committee's recommendations, the Reserve Bank of India introduced Income Recognition, Asset Classification and Provisioning Norms (popularly known as IRAC norms) from 1992-93. While adopting the norms, the Bank has been more prudent in some areas than what has been stipulated by RBI.

A. INCOME RECOGNITION

The Committee has underlined the need for the policy of income recognition to be objective and based on the record of recovery. It has observed that internationally income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. The Committee has, therefore, recommended that a similar practice should be followed by banks in India.
The record of recovery is established by ensuring that any commitment due from a borrower does not remain uncollected or remains past due for two quarters or more in the financial year. An amount under any of the credit facilities is to be treated as past due when it has not been paid on the due date. Further, it has been decided that a non-performing asset (NPA) should be defined as a credit facility in respect of which interest or principal has remained unpaid for a period of two quarters during the year ended in the financial year and onwards. Banks should not change and take to income account interest on all non-performing assets.

Having stated the above, the question that follows is how to translate the above into bench marks for identifying an account as NPA for different types of credit facilities. While it is possible to know whether principal or interest remains uncollected for a definite period say for 2 quarters in accounts like Term Loans, Demand Loans etc.

**Term Loans**

For the year ended in the financial year and onwards, a loan will be treated as NPA if interest or installment of principal remains past due for two quarters or more.
Cash Credits and overdrafts

A cash credit or overdraft account will be treated as NPA if the account remains out of order for a period of two quarters during the year ended in the financial year and onwards. An account should be treated as out of order if

* the outstanding balance remains continuously in excess of the sanctioned limit/drawing power.

* In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for six months as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period.

Bills purchased and discounted

The bills purchased/discounted account should be treated as NPA if the bill remains overdue and unpaid for a period of two quarters during the year ended in the financial year and onwards. However, overdue interest should not be charged and taken to income account in respect of overdue bills unless it is realised.
Other accounts

Any other credit facility should be treated as NPA if any amount to be received in respect of that facility remains past due for a period of two quarters during the year ended in the financial year and onwards.

ASSET CLASSIFICATION

The banks should classify advances into four broad groups as under:

1. Standard assets
2. Sub-standard assets
3. Doubtful assets (DA)
4. Loss assets (LA).

1. Standard Assets

Standard asset is one which does not disclose any problem and which does not carry more than normal risks attached to the business. Such an asset is not a NPA.

2. Sub-standard assets

Sub standard asset is one which has been classified as NPA for a period not exceeding eighteen months. An asset where the terms of the loan agreement regarding interest and principal have been renegotiated or rescheduled after commencement of production should be classified as sub-standard and should remain in such category for at least two years of satisfactory performance under the renegotiated or
rescheduled terms. In other words, the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of the above condition.

3. Doubtful Assets

A doubtful asset is one which has remained NPA for a period exceeding one and half years. Hereto as in Sub Standard category, where an account in DA category has been rescheduled, the account should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of the renegotiated or rescheduled terms for at least two years before upgradation.

4. Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off, wholly or partly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

It is likely that there could be some salvage value for the security available in a loan account which is, however, insignificant as compared to the total outstandings in the account. RBI have stated that the Bank should not consider the value of any security if it is insignificant in relation to the total outstanding. Whether the value of security is insignificant or not has to be decided on a case basis.
5. **Asset Classification**

Treatment of accounts under IRAC norms should be borrower wise and not account wise. In other words, different facilities granted to a borrower can not have different classification. All borrowal accounts irrespective of their outstandings are required to be classified as Standard, Sub-standard, Doubtful or Loss Assets.

**C. PROVISIONING FOR LOANS AND ADVANCES**

Taking into account the time lag between an account becoming doubtful of recovery, its recognition as such, the realisation of the security and the erosion over time in the value of security charged to the Bank, it has been decided that provision should be made against sub-standard assets, doubtful assets and loss assets.

While arriving at NPA provision balances in

1. Interest Not Collected Account (INC) and
2. Interest Suspense A/c, if any, and
3. Unrealised Interest of the Previous Year.

should be deducted from the outstandings in a borrowal account, and provision as per the percentages indicated below should be held.
<table>
<thead>
<tr>
<th>ASSETS CATEGORY</th>
<th>PROVIDE TO BE HELD AT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Standard Assts</td>
<td>0.25%</td>
</tr>
<tr>
<td>B. Sub-standard Assets</td>
<td>10%</td>
</tr>
<tr>
<td>C. ON SECURED PORTION OF</td>
<td></td>
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<tr>
<td>Doubtful Assets upto 1 year</td>
<td>20%</td>
</tr>
<tr>
<td>1 year to 3 years</td>
<td>30%</td>
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<tr>
<td>Over 3 years</td>
<td>50%</td>
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<td>D. Loss Assets &amp; Unsecured portion of</td>
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<td>D Assets</td>
<td>100%</td>
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BANKING OPERATIONS AND THE OPERATIONAL PERFORMANCE OF
THE STATE BANK OF INDIA:

Banks in the process of financial intermediation have come to acquire the nature of multi-product firms. However, their basic function remains the same, i.e. collection of funds and lending these funds in the most profitable form. The performance of these functions pre-supposes that after various costs of performing these functions are met, a margin of profit is left, which in turn would be taken as measurement of the efficiency of working of the banking organization. The purpose of this Chapter is to study about the need for operational income of the banks with special reference to the State Bank of India, the sources through income could be generated, income management and its uses-ratio of income to total working capital, to total funds, total expenses, etc. The manner in which the State Bank of India disposes of its profits—including dividend to shareholders (its policy), transfer to reserves, etc. are also to be covered in the study.

In the process of financial intermediation banks have come to acquire the nature of multi-product firms. However, their primary functions remain the same i.e. collection of funds and lending of such funds and these form the most remunerative functions of commercial banks. The performance of these functions pre-supposes that after various costs of such functions are met,
margin of profit is left and that level of profit would be taken as an index of the efficiency of working of the banking organisation. For that matter, profit as an indicator of working efficiency is applicable to any business organisation. Depending on their size, banks are multi-product firms and they compete with one another for profits. The inter-organisational structure of a bank also treats its constituent units as potential profit centres. This pattern of working has come to be accepted in the State Bank either as a matter of custom or for reasons of convenience.

NEED OF PROFITS IN BANKING:

Banking industry is a service industry, its aim is not to make profit but to serve the nation to the utmost extent. In order to render services in a standard manner the management has to take various steps to plan and control the activities and day-to-day working of the bank. Such steps involve huge expenditure.

Therefore the management tries to find out ways and means for earning money, firstly to defray the expenses and secondly to have a certain amount for meeting development expenditure. In this respect the bank also tries to make profit because profit provides incentive for better work and it is out of profit that various reserves are created, which are used for meeting various requirements of banking. These days there is competition also among various nationalised
banks. The profit earning capacity of a bank indicates its efficiency. The management always makes intensive efforts to render not only good services but also to make profit. These days the demand for banking services has increased to a very great extent. Hence various types of reserves and funds are created for making improvement in banking services and for creating infrastructure for the same. Therefore there is need for profit in banking.

DETERMINANTS OF BANK PROFITS:

Profits of the banks are determined on the basis of interest, dividend and exchange on bills purchased and discounted, loans and advances, investments and deposits with banks. Banks also earn income by way of commission and charges of letters of credit, bills for collection, sale of telegraphic transfers and demand drafts and other services. They also make recoveries on assets previously written off and gain from revaluation or sales of assets, in addition to these determinants of income, there are several other incomes which are made by banks.

PROFITS EARNED BY THE STATE BANK OF INDIA:

The capital of the bank has been changed after public/right issue of the year 1993-94 and Global Depository Receipt issued in the financial year 1996-97 and the reserve funds are sometimes statutorily regulated. Therefore, to ascertain the profitability trend in the banking organisation, its profits earned
over a number of years should be observed. The following indications are useful for this purpose:

i) the ratio of income to working funds, and

ii) the ratio of profits to working funds.

Further, the ratio of profit to the total income, or operating income enables us to know the margin of profit. For analysing the profits of the S.B.I., the working funds, the total income and the profits have been studied for various years. The working funds have been arrived at by deducting two contra items, viz.

i) bills for collection, being bill receivable, and

ii) acceptances, endorsement and other obligations from the total liabilities as shown in the Balance Sheets.

OPERATIONAL AND FINANCIAL PERFORMANCE OF THE BANK

The Bank's net profit in 1996-97 recorded an increase of more than 59% over the previous year. The net profit of 1997-98 has recorded a further growth of more than 40%. The Bank has initiated a number of measures including restructuring of the Treasury & Investment Management Operations and streamlining its systems.

CORPORATE FINANCE:

The Bank's loans to large and medium corporates account for more than half the loan portfolio of domestic offices. SBI counts among its clients almost all the major corporates in India today, spanning a wide spectrum
of industrial activity.

The industrial loan portfolio of SBI is thus diversified and commercial risk distribution is well balanced. Significant presence in the basic goods industries and the core sector is matched by lending thrusts in emerging areas of domestic consumption and exports.

During the year 1997-98, the Bank's loans to large and medium industry have inched by 17% reflecting the general trend of increase corporate credit growth. While the increase was substantial in the case of basic industries group, certain individual industries (such as textiles, tea, electricity, sugar, tobacco, chemicals and dyes and leather drew higher credit and there was increased lending to the capital and consumers goods sectors. To better meet the increasingly diverse requirements of the large corporate sector, five more specialised branches for corporate banking and finance have been set up, taking the total number of such branches to 27. These branches account for 48% of total commercial and institutional (C&I) advances. Under the Bank's continuing technology upgradation programme, it is proposed to link all critical branches electroically in the near future for real time information flows.

**EXPORT PROMOTION:**

Exports continue to be a thrust area in the economy and SBI has provided total export credit of Rs. 7,151 Crores as at the end of 1997-98. This constituted
9.63% of the Bank's loan portfolio, uppromating the 10% benchmark stipulated by RBI. LIBOR-linked pre-shipment credit in Foreign Currency (PCFC) was extended to cover financing needs of many exporters.

SBI is establish an exclusive branch in Madras for servicing leather and leather goods exporters to sharpen focus on this important category of customers.

**PRIORITY SECTOR LENDING:**

The Bank continued its development thrust with priority sector lendings aggregating Rs. 22,510 crores and the total number of borrowal accounts crossing the 90 lakh mark. These advances constituted 37.45% of the Bank's total advance reflecting an absolute growth of Rs. 3296 crores, SBI's efforts to nurture credit absorption capacity to reach the stipulated benchmark of 40% lending would continue.

The Bank's direct and indirect agricultural advances constituted 11.84% of its net credit. More than 47% of the agricultural advances of Rs. 5013 crores is in backward districts, distributed among 32 lakh borrowal accounts. Recovery of agricultural advances stood at 54.1% at end-June 1997.

Lead responsibility has been assumed by SBI in eight thirteen districts during 1997-98 (total 145). Fresh loans of Rs. 337 crores were disbursed in the lead districts while Rs. 1,700 crores were disbursed in the non-lead districts in the rest of the country.
SBI's lending to small scale industrial and business units stood at Rs. 13,725 crores at end 1997-98 distributed among 315 lakh units, 51% of these units assisted by the Bank are located in backward districts and total credit extended to such units is Rs. 4113 crores.

The Bank continues to lay emphasis on encouraging women entrepreneurs. It has so far assisted women entrepreneurs to the extent of Rs. 364 crores covering 2.6 lakh accounts.

Minority communities were assisted to the extent of Rs. 4242 crores covering 27.8 lakh beneficiaries. This includes Rs. 759 crores advanced to 4.2 lakh beneficiaries in 41 minority intensive districts.

**TREASURY AND INVESTMENT MANAGEMENT:**

In line with industry trends, the Bank's total investments registered a higher increase of 17.41% to Rs. 54982 crores against a growth of 6.5% in 1996-97.

With slower credit growth and excess liquidity due to this Cash Reserve Ratio maintained at 10% except 10.5% between 17th January to 22nd March 1998 and the SLR was made uniform at 25% the Bank for commercial reasons, stepped up its investments in Government securities from 11.36% to 15.01%. However, the Bank's securities business in the secondary market was low during the year due mainly to market inactivity. This is expected to pick up with the commencement of operations by the National Stock Exchange and the securities Trading Corporation of India.
CUSTOMER FOCUS:

The State Bank's working to enhance the confidential loyalty of its customers by improving the quality of service and by providing financial products and services to meet diverse client requirements. To learn more about customer needs and perceptions, the Bank has in place a system of structured interfaces.

To further gain an objective and impartial picture of the quality of SBI's customer service so as to identify areas for improvement and innovation, the Bank engaged specialised external agency to assess customer satisfaction levels and emerging needs in the increasingly competitive environment.

OVERSEAS OPERATIONS:

Treasury Management:

The Bank wrote the first cross currency option on the first day of introduction of the scheme in India and has emerged as a leader in this field, having written the largest number of options so far in India.

In the coming years, ferox deals will become an important source of profits for the Bank's overseas operation. It is therefore, proposed to equip major dealing rooms with state-of-the-art support systems. To access up-to-the-moment information on forex and interest rates, the Bank has installed Returns Money 2000 facility at its offices in all important centres in India. This will also help customers access vital information on an ongoing basis.
BANK IN INTERNATIONAL MARKETS

Large value project imports continued to be financed by export credits from the suppliers countries. The Bank was, however, in a position to extend some foreign currency loans of small and medium value without requiring participation from international banks.

During the year 1993-94 the Bank along with Bank of Baroda syndicated a term loan facility for $30 million for Mangalore Refineries and petrochemicals limited. The Bank also arranged $81 million to part finance new projects and $50 million as a financing loan to Rashtriya Chemicals and petroleum limited. Short-term loans of over $1 million were successfully organised for the Indian corporate sector, both private and public to finance imports. The Bank extended funds worth over $1.55 million to exporters by way of pre-shipment credit in foreign currency.

Profile of Bank's Foreign Offices

<table>
<thead>
<tr>
<th></th>
<th>(Rs. Crores)</th>
<th>($ in Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>End March</strong></td>
<td><strong>No. of Offices</strong></td>
<td><strong>Countries Deposits Advance Investments Profit</strong></td>
</tr>
<tr>
<td><strong>1997</strong></td>
<td><strong>52</strong></td>
<td><strong>35</strong></td>
</tr>
</tbody>
</table>

-98-
The Bank, as part of its overseas expansion, established a representative office in Tashkent, Nepal SBI Bank Ltd., the Bank's joint venture bank in Nepal, commenced business operations during the year. In the nearer term. It is proposed to establish the Bank's presence in Shanghai (China) and Johannesburg (South-Africa) subject to regulatory clearances. Under consideration is establishing the Bank's presence in an appropriate form in Chittagong (Bangladesh), the Russian Federation, Uzbekistan and Kazakhstan, Correspondent relations have been formalised with banks in almost all the states of the CIS to maintain a strong position in the area. Contract are being signed for managing an Exchange Company at Doha (Qatar).

The State Bank Group Performance—As at March-end 1998

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Deposits</th>
<th>Advances</th>
<th>Priority Sector</th>
<th>Total Profit Investments</th>
<th>No. of offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.B.I.</td>
<td>131091</td>
<td>74237</td>
<td>54982</td>
<td>1861</td>
<td>8925</td>
</tr>
<tr>
<td>Associate Banks</td>
<td>42513</td>
<td>23329</td>
<td>17721</td>
<td>599</td>
<td>4291</td>
</tr>
<tr>
<td>Group Total</td>
<td>173604</td>
<td>97566</td>
<td>72703</td>
<td>2460</td>
<td>13216</td>
</tr>
</tbody>
</table>

Regional Rural Banks.

The Group has sponsored 44 RRBs, of which 30 have been sponsored by the Bank with a networks of 2,383 offices covering 75 backward/underbanked districts in the country. The Group has contributed Rs. 41.4 crores towards share capital of these RRBs. Total deposits and advances of these
RRBs amounted to Rs. 2666 crores and Rs. 1183 crores respectively, showing growth rates of 18.46% and 15.66% in that order.

**Subsidiaries & Joint Ventures Foreign:**

<table>
<thead>
<tr>
<th>Name</th>
<th>Deposits</th>
<th>Advances</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI European Bank Ltd.</td>
<td>179</td>
<td>526</td>
<td>1394</td>
</tr>
<tr>
<td>SBI (California)</td>
<td>182</td>
<td>93</td>
<td>131</td>
</tr>
<tr>
<td>SBI (Canada)</td>
<td>145</td>
<td>339</td>
<td>60</td>
</tr>
<tr>
<td>Nepal SBI Bank Ltd.</td>
<td>153</td>
<td>111</td>
<td>26</td>
</tr>
<tr>
<td>Bank of Bhutan</td>
<td>440</td>
<td>157</td>
<td>122</td>
</tr>
<tr>
<td>State Bank of International Ltd. (Mauritius)</td>
<td>493</td>
<td>359</td>
<td>24</td>
</tr>
<tr>
<td>Indo-Nigerian Merchant Bank Ltd.</td>
<td>16</td>
<td>15</td>
<td>3</td>
</tr>
</tbody>
</table>

**EXPENSES AND EARNINGS:**

The income of the commercial banks is the result of the size and the type of assets held, in the return of these assets and the charges imposed for the performance of various services. The main sources of income are (i) interest and Discount, (ii) Commission, Exchange and Brokerage, (iii) and other Receipts.

The interest is earned on investments, loans and advances its rate is not always uniform but depends upon the characteristics of individual loans, the conditions of the demand, credit risks and supply in the market, instructions.
issued by central banking authority and the agreement, if any, amongst the bankers in this regard. The discounts and receipts on advances made through trade bills.

The commissional exchange and brokerage are the charges for various services rendered to account holders and others, 'Other Receipts' include residual items, e.g. rent from banks own property, profits on sale of non-banking assets or other receipts. In the case of the State Bank of India, funds with drawn from 'Integration and Development Funds' and dividends from subsidiary banks are also included.

As regards expenditure, it is to a large extent fixed, especially in a short period, because banking is a highly personalised service industry. Banks are not in a position to produce for inventory, suspend operations or substantially reduce labour force as some industries do. Therefore, the short-run expenses are not closely correlated to the volume of business done or to the gross profits. The main items of expenditure are: (i) interest paid on deposits, borrowings etc. (ii) establishment expenses consisting of staff salaries, allowances, provident fund, bonus and gratuity, (iii) depreciation and repairs on bank's property and (iv) other expenditures like rents paid, taxes insurance premium, stationery, postage, director's fees and allowances auditors fees, legal expenses etc.

On the whole, it may be concluded that the tendency of the State Bank of India is to have strong reserve fund, therefore the major portion of the profit is being transferred to this funds.
The main sources of the income of the State Bank of India are interest and discount, commission, exchange and brokerage and dividends of its shares on its subsidiaries, out of these four sources the biggest source is interest and discount. It also receives rent but the receipt under this head is the lease in comparison to the other heads of receipts.

Main heads of expenditure of this bank are interest paid on deposits and borrowings, salaries and allowances etc., directors and local board fees and allowances, rent, taxes, insurance and lighting etc., law charges, postage telegrams and stamps, auditor's fees, repairs to banks property, stationery, printing, advertisement and other expenditure. In addition to these expenditures depreciation on bank's property is also charged against profit. Out of these various heads of expenditure interest paid on deposits and borrowings ranks first because the maximum amount is spent on this head, next comes salaries and allowances the third place is that of rent, taxes, insurance and lighting, other expenditures occupy the fourth place.

The review of both income and expenditure of the State Bank of India shows that due to rapid increase in deposits the amount of interest paid on deposits has increased. The next place among the various expenditures is given to salary, allowances, providend fund, bonus etc., the reason for this is the rise in branch expansion.
resulting in the recruitment of employees and the consequent increase in salary. The minimum amount is spent on directors and local board members fees and allowances.

Inter office, inter bank and drafts account containing old outstanding entries require reconciliation because the net impact of consequential adjustments, in respect of these falls on bank profit and loss account.

The State Bank of India is also paying special attention to expenditure on public relations and publicity and this amount is included in the head of the stationery, printing, advertisement etc. These days it is necessary to have better public relations and more publicity about various services of the bank. Therefore expenditure of this head is justified.

It is surprising to note that the bank has made no income from sale on investments and revaluation of investments. Income from non-banking assets is also nil and it is a good sign.

On the whole, it may be concluded that the position of the State Bank of India on the basis of profit and loss account is satisfactory. State Bank has been servicing all its principal and interest liabilities on time and there have been no details since inception.
The detailed position of operational and financial performance is as under:

<table>
<thead>
<tr>
<th>Income</th>
<th>(Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year ended 31.3.98</td>
</tr>
<tr>
<td>I. Interest/discount on advances/bills</td>
<td>Rs. 7829.12</td>
</tr>
<tr>
<td>II. Income on investments</td>
<td>Rs. 6391.62</td>
</tr>
<tr>
<td>III. Interest on balances with Reserve Bank of India and other inter-bank funds</td>
<td>Rs. 631.55</td>
</tr>
<tr>
<td>IV. Other Interest</td>
<td>Rs. 1026.60</td>
</tr>
<tr>
<td>V. Other Income</td>
<td></td>
</tr>
<tr>
<td>a. Commission on exchange &amp; brokerage</td>
<td>Rs. 2037.17</td>
</tr>
<tr>
<td>b. Profit on sale of investments (net)</td>
<td>Rs. 115.57</td>
</tr>
<tr>
<td>c. Profit on sale of land, buildings and other assets (net)</td>
<td>Rs. 1.07</td>
</tr>
<tr>
<td>d. Profit on exchange transactions (net)</td>
<td>Rs. 505.50</td>
</tr>
<tr>
<td>e. Income earned by way of dividends, etc., from subsidiaries/companies and/or joint ventures abroad/in India</td>
<td>Rs. 50.11</td>
</tr>
<tr>
<td>f. Lease Income</td>
<td></td>
</tr>
<tr>
<td>* Lease management fee</td>
<td>Rs. 2.74</td>
</tr>
<tr>
<td>* Lease rental</td>
<td>Rs. 34.17</td>
</tr>
<tr>
<td>* Lease finance charges</td>
<td>Rs. 9.96</td>
</tr>
<tr>
<td>* Overdue charges</td>
<td>Rs. 0.17</td>
</tr>
<tr>
<td>g. Other income</td>
<td>Rs. 63.11</td>
</tr>
<tr>
<td>TOTAL</td>
<td>Rs. 18699.06</td>
</tr>
<tr>
<td>Expenditure</td>
<td>Year ended 31.3.98</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>I. Interest on deposits</td>
<td>Rs. 9586.24</td>
</tr>
<tr>
<td>II. Interest on Reserve Bank of India/Inter-bank borrowing</td>
<td>Rs. 481.24</td>
</tr>
<tr>
<td>III. Others</td>
<td>Rs. 405.73</td>
</tr>
<tr>
<td>IV. Payments to and provisions for employees</td>
<td>Rs. 3557.75</td>
</tr>
<tr>
<td>V. Rent, Taxes and lighting</td>
<td>Rs. 344.82</td>
</tr>
<tr>
<td>VI. Printing &amp; Stationery</td>
<td>Rs. 84.58</td>
</tr>
<tr>
<td>VII. Advertisement and publicity</td>
<td>Rs. 15.02</td>
</tr>
<tr>
<td>VIII. Depreciation on bank's property (other than leased assets)</td>
<td>Rs. 146.16</td>
</tr>
<tr>
<td>IX. Depreciation on Leased Assets</td>
<td>Rs. 17.91</td>
</tr>
<tr>
<td>X. Directors' fees, allowances and expenses</td>
<td>Rs. 0.67</td>
</tr>
<tr>
<td>XI. Auditors' fees and expenses (including branch auditors fees and expenses)</td>
<td>Rs. 16.76</td>
</tr>
<tr>
<td>XII. Law Charges</td>
<td>Rs. 11.68</td>
</tr>
<tr>
<td>XIII. Postages, Telegrams, Telephones etc.</td>
<td>Rs. 61.97</td>
</tr>
<tr>
<td>XIV. Repairs and maintenance</td>
<td>Rs. 41.27</td>
</tr>
<tr>
<td>XV. Insurance</td>
<td>Rs. 60.15</td>
</tr>
<tr>
<td>XVI. Other expenditure</td>
<td>Rs. 362.15</td>
</tr>
<tr>
<td>XVII. Provision and contingencies</td>
<td>Rs. 1643.76</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>Rs. 16837.86</td>
</tr>
</tbody>
</table>
NET PROFIT

<table>
<thead>
<tr>
<th>31.3.98</th>
<th>31.3.97</th>
</tr>
</thead>
<tbody>
<tr>
<td>1861.20</td>
<td>1349.25</td>
</tr>
</tbody>
</table>

NOTES: (ON INCOME AND EXPENDITURE)

(i) Interest and income on resources operations were clubbed together after netting off the provisions for bad and doubtful debts and other provisions and contingencies and were shown under 'Interest' and 'Discount'

(ii) Interest on others was included under 'Borrowings'

(iii) Various benefits to employees were not added to payment to and provision for employees.

(iv) Maintenance was clubbed under other expenditure.

(v) Books and Periodicals were clubbed under Printing and Stationery.

(vi) Other income include other interest, income by way of Dividends on Subsidiaries and Joint Ventures and other miscellaneous income. This is netted off with the profit/loss on sale of investment, profit/loss on sale of assets and loss on revaluation of investment.

INCOME DETERMINANTS:

The Bank's performance for the year 1997-98 was encouraging. The net profit increased from Rs. 837 crores in 1996-97 to Rs. 543 crores, being increase of 18%. Deposits grew by 15% in the year 1996-97 the personal segment deposits forming 94% of the total deposits. Advances increased by 19%. The banking
industry also witnessed slow pick-up in advances caused mainly by prime corporate clients increasingly accessing non-bank sources and by better inventory management on the part of industrial borrowers. The some extent, this was also due to subdued industrial growth last year which impacted on credit expansion of banks. Our investments, however grew from Rs. 58,982 crores to Rs. 46,828 crores showing on increase of 25.95%. Total Income is increased by 6.28% while total expenditure is increased by 3.64% of the last year. This is increase the profit of the Bank. I am pleased to say that this year, your Bank has declared the rate of dividend to 40%. The dividend rate was also same in previous year i.e. 1996-97. This reflects our commitment towards value for shareholders' investment.

Fundamental changes are occurring in the market place. It is becoming increasingly deregulated and globalised. As a result, while competition is increasing the scope for new business opportunities and for participating in the world market is also expanding in this environment, the Bank needs to enhance its capability to render service of a world class standard and to have a thorough review of its strategy, a task in which your Bank is currently engaged. The Bank has a number of unique strengths and it is speedily gearing itself to take advantage of the new business environment. The management of the Bank is confident that in the process, your Bank will emerge much stronger and its performance and earnings will improve.
DOMESTIC OPERATIONS:

PROFITS

State Bank of India has consistently striven to raise profits more so now with a wide capital base. Net profit went up to Rs. 1861 crores in 1997-98 after full provisioning as per RBI's Income Recognition and Asset Classification norms, up 37.95% from the net profit of Rs. 1349 crores post last year.

(Amounts in crores of Rupees)

<table>
<thead>
<tr>
<th>FOR THE YEAR</th>
<th>1997-98</th>
<th>1996-97</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>18694</td>
<td>17594</td>
<td>6.28</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>16838</td>
<td>16245</td>
<td>3.65</td>
</tr>
<tr>
<td>Net Profit</td>
<td>1861</td>
<td>1349</td>
<td>37.95</td>
</tr>
</tbody>
</table>