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 present 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 desintermediation 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 refurbishing 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) of 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 1998 amounted to Rs. 131091 crores. Its loan portfolio on the same date stood at Rs. 74237 Crores. 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 banker to 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 Replenishment Schemes (against export of jewellery), the National Deposit Scheme to old 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, 1998). Nearly 492 of its offices in India and 52 offices abroad (spread over 33 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 had 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 1998, the Bank's loan portfolio to this sector stood at Rs. 8794 Crores.

Dealing in the Gold Metals

The Bank has started import sale gold to
domestic consumers on bulk basis from February 1998 from their selected branches as per liberalized policy of Government of India towards import of gold for domestic sale. The Bank has entered into agreements with a few international banks of repute to import gold on consignment basis.

Bank has already doing as nominated agencies for import of gold/silver under the gold/silver Jewellery Export Promotion and Replenishment scheme of the Government of India from authorized branches. Such branches of bank are supplying gold/silver to the exporters at international price by way of replenishment against the gold/silver jewellery exports.

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 8925 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 up to 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 professionals. These multidimensional approaches have been successful and State Bank's small industry and small business loan portfolio presently stands at Rs. 13,725 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 centres. 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 thirty 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 1988, State Bank, while focussing 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 competitivences 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. The Bank has taken new project for foundry cluster at Belgaum State Karnataka during the year 1998.
In its efforts at putting customer needs and requirements at the heart of its activities, State Bank has established an 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 1993-94, for balancing principal and subsidiary accounts of the Bank and for disposal of outstanding entries in office accounts, which is currently being implemented.
In order to further improve speed and efficiency in operation and to provide prompt service to clients. The bank has been fully computerized its all service branches. The bank had fully computerized 1211 branches, out of which 1009 branches of urban and metropoliton branches. The banks fully computerized branches are providing essential to customers. The computerized branches account for 36% of the bank's deposit, 58% of advances and 72% of forex turnover at end March 1998. The Bank has initiating of inter branch connective programmes under which four branches, two each in Bangalore and Mumbai start working. The bank has installed Automated teller machines at it 14 important branches. It provide round the clock customers services. The Bank's branches at major seaports and airports are being equipped to provide Electronic Data Inter change (EDI) system for duty collection and duty draw back disbursements to the customers department of the Government of India. Computer system at controlling office are being upgraded for efficient data management in the first phase, computer in use at centres have been replaced with advanced RISC based computer. The Bank has been set up at all Local Head Offices (LHOs) to use new technology Satellite training centres. The bank's apex training institute in information and communication technology, trained a large number of its employees to use it.
COMMUNICATION

SBINET

In 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 a 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.

SBI DATANET

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. At the end of 31st March 1998, the Bank had fully computerized 1211 branches.
SWIFT

State Bank is a member of the Society for World Wide 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.

It has thus been essential for the bank to minimise the risk and do all effort to achieve this goal or reducing risks.