A STUDY ON CREDIT RISK MANAGEMENT AT STATE BANK OF INDIA

A Project Submitted to
University of Mumbai for partial completion of the degree
of Bachelor in Commerce Accounting and Finance
Under the Faculty of Commerce
By

SIMRAN SUDHIR TAMBE
T.Y.B.A.F.(SEMISTER-VI)
PRN NO.2021016401613485

Under the Guidance of

Prof. Kishor Chauhan

JNAN VIKAS MANDAL

Mohanlal Raichand Mehta College of Commerce

Diwali Maa College of Science

Amritlal Raichand Mehta College of Arts

Dr. R.T. Doshi College of Computer Science

NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)

Sector -19, Airoli, Navi Mumbai, Maharashtra 400708.

2023-2024

CERTIFICATE

This is to certify that Mr. **SIMRAN SUDHIR TAMBE** has worked and duly completed her project work for the degree of **Bachelor in Commerce Accounting and Finance** under the Faculty of Commerce in the subject of STATE BANK OF INDIA and her project is entitled, "**A STUDY ON CREDIT RISK MANAGEMENT OF STATE BANK OF INDIA**" under my supervision.

I further certify that the entire work has been done by learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is her own work and facts reported by her personal findings and investigations.

Prof. **Kishor Chauhan**

Date:

Declaration

I the undersigned Mr. **SIMRAN SUDHIR TAMBE** here by, declare that the work embodied in this project work titled **"A STUDY ON CREDIT RISK MANAGEMENT AT STATE BANK OF INDIA"** forms my own contribution to the research work carried out under the guidance of Prof. **Kishor Chauhan** is a result of my own research work and has not been previously submitted to any other University for any other Degree / Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

SIMRAN SUDHIR TAMBE

Certified by

Prof. Kishor Chauhan

Acknowledgment

To list who all have helped me is difficult because they are so numerous and depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

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I N D E X

CHAPTER –1

INTRODUCTION

1.1 INDUSTRY PROFILE.

Banking is the life blood of trade, commerce and industry. Nowadays, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. The banking is one of the most essential and important parts of the human life.

In current faster lifestyle peoples may not do proper transitions without developing the proper bank network. The banking System in India is dominated by nationalized banks. The performance of the banking sector is more closely linked to the economy than perhaps that of any other sector.

The growth of the Indian economy is estimated to have slowed down significantly. The economic slowdown and global developments have affected the banking sectors' performance in India in FY12 resulting in moderate business growth. It has forced banks to consolidate their operations, re-adjust their focus and strive to strengthen their balance sheets.

The banking sector in India is on a growing trend. It has vastly benefitted from the surge in disposable income of individuals in the country. There has also been a noticeable upsurge in transactions through ATMs, and also internet and mobile banking. Consequently, the different banks, viz public, private and foreign banks have invested considerably to increase their banking network and thus, their customer reach.

The banking industry in India has the potential to become the fifth largest banking industry in the world by 2020 and third largest by 2025 according to a KPMG-CII report. Over the next decade, the banking sector is projected to create up to two million new jobs, driven by the efforts of the RBI and the Government of India to integrate financial services into rural areas. Also, the traditional way of operations will slowly give way to modern technology.

Market Size.

The Indian banking sector is fragmented, with 46 commercial banks jostling for business with dozens of foreign banks as well as rural and co-operative lenders. State banks control 80 percent of the market, leaving relatively small shares for private rivals.

Banks have opened 7.73 core accounts under the Pradhan Mantri Jan Dhan Yojana (PMJDY) till November 19, according to Mrs. Snehlata Shrivastava, Additional Secretary, Department of Financial Services, Ministry of Finance, and Government of India. Of the 77.3 million accounts, public sector banks have opened 62.1 million accounts with a total balance of Rs 4,946.03 core (US$ 802.64 million), and have distributed RuPay debit cards to around 43 million accounts.

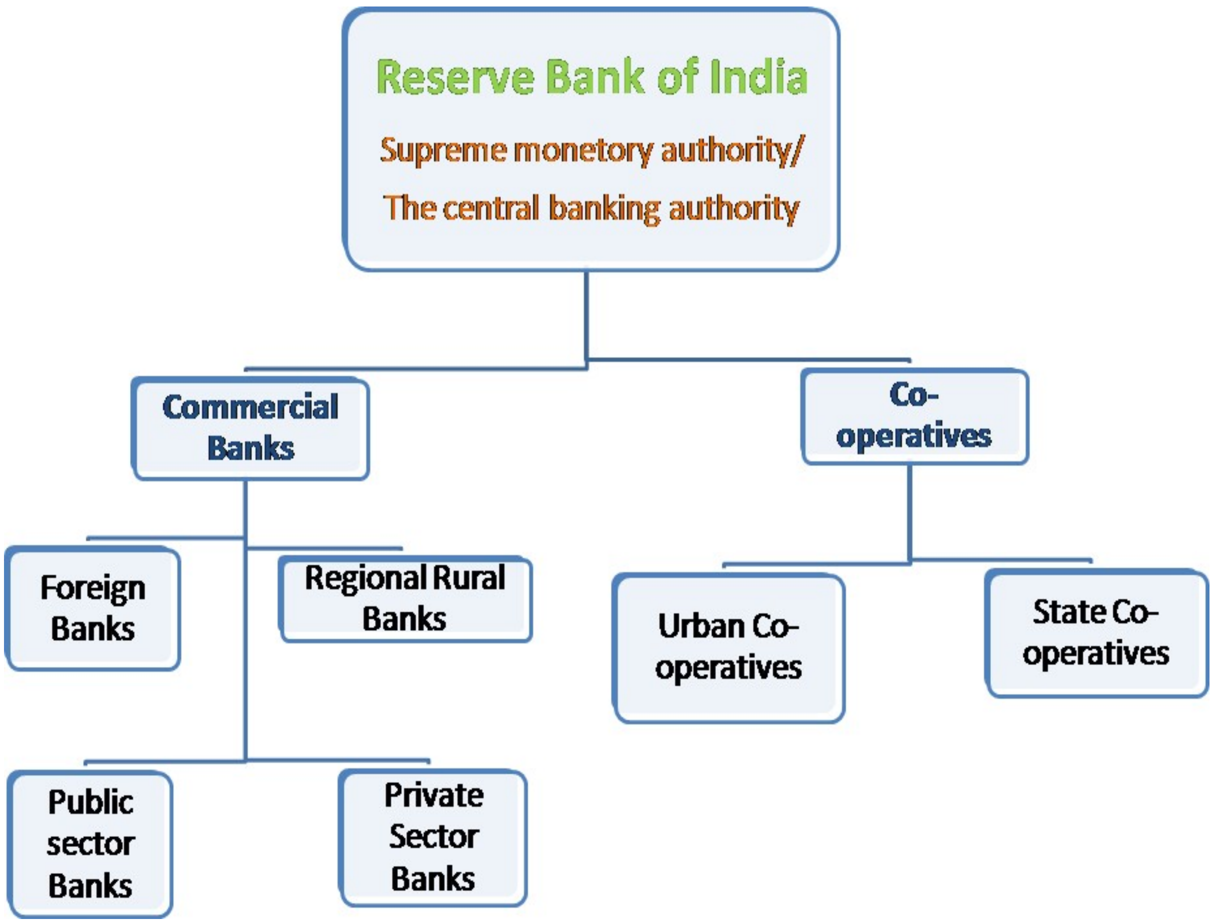
Total banking sector credit is anticipated to grow at a CAGR of 18.1 per cent to reach US$ 2.4 trillion by 2017. The total banking assets in India touched US$ 1.8 trillion in FY13 and is anticipated to cross US$ 28.5 trillion in FY25.

Investments.

There have been many investments and developments in the Indian banking sector in the past few months. Some of the recent majors are:

- Kotak Mahindra Bank plans to acquire ING Vysya Bank in an all-stock deal. The deal will make Kotak the fourth-largest private bank in the country in terms of total business. ING shareholders will now get 725 Kotak Bank shares for every 1,000 shares they hold.
- Bhartiya Mahila Bank Ltd (BMB) has launched its internet banking facility by the name BMB Smart Banking, along with its newly designed website. Currently, this woman focused bank has branch network of 33 branches and all of them on core banking solutions with onsite ATMs.
- The United Economic Forum (UEF) has signed a MoU with the Indian Overseas Bank (IOB) for financing entrepreneurs from backward communities to set up businesses in Tamil Nadu. As part of the agreement, entrepreneurs who have been chosen by the UEF, will get term loan / working capital requirements from the bank.

INDIAN BANKING SYSTEM:



RESERVE BANK OF INDIA (RBI)

- Reserve Bank of India is the Central Bank of our country.
- It holds the apex position in the banking structure.
- RBI performs various developmental and promotional functions.
- It has given wide powers to supervise and control the banking structure.

- It occupies the pivotal position in the monetary and banking structure of the country.
- In many countries central bank is known by different names.
- They have the authority to formulate and implement monetary and credit policies.
- It is owned by the government of a country and has the monopoly power of issuing notes.

MAJOR FUNCTIONS OF RBI

Issue of Bank Notes:

The Reserve Bank of India has the sole right to issue currency notes except one rupee notes which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country.

Banker to Government:

As banker to the government the Reserve Bank manages the banking needs of the government. It has to-maintain and operate the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as the member of the IMF and the World Bank.

Custodian of Cash Reserves of Commercial Banks:

The commercial banks hold deposits in the Reserve Bank and the latter has the custody of the cash reserves of the commercial banks.

Custodian of Country's Foreign Currency Reserves:

The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crisis connected with adverse balance of payments position.

Lender of Last Resort:

The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

Central Clearance and Accounts Settlement:

Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank.

Controller of Credit:

Since credit money forms the most important part of supply of money, and since the supply of money has important implications for economic stability, the importance of control of credit becomes obvious. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

1.2 INTRODUCTION OF STATE BANK OF INDIA

State Bank of India is an Indian multinational, Public Sector banking and financial services company. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. As of December 2013, it had assets of US$388 billion and 17,000 branches, including 190 foreign offices, making it the largest banking and financial services company in India by assets.

State Bank of India is one of the Big Four banks of India, along with Bank of Baroda, Punjab National Bank and ICICI Bank.

The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding, in 1806, of the Bank of Calcutta, making it the oldest commercial bank in the Indian Subcontinent. Bank of Madras merged into the other two "presidency banks" in British India, Bank of Calcutta and Bank of Bombay, to form the Imperial Bank of India, which in turn became the State Bank of India.[8] Government of India owned the Imperial Bank of India in 1955, with Reserve Bank of India (India's Central Bank) taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India.

State Bank of India is a regional banking behemoth and has 20% market share in deposits and loans among Indian commercial banks.

Associate banks

SBI now has five associate banks, down from the eight that it originally acquired in 1959. All use the State Bank of India logo, which is a blue circle, and all use the "State Bank of" name, followed by the regional headquarters' name:

- State Bank of Bikaner & Jaipur
- State Bank of Hyderabad
- StateBank of Mysore
- State Bank of Patiala
- State Bank of Travancore

SBI'S JOURNEY THROUGH NUMBERS

No.1	Largest Bank in India (Deposits, Advances, Profits, Branches, Employees)
21.92 crores+	Active customer base
26 lakhs crores	Business size
1 lakh+	Touch points
43,515	Pan-India ATMs (26% of market share in ATM population in India)
45,487	Business correspondent and Customer Service Points
5.63 crores+	Core Banking Business Transactions (daily
	average transactions)
70 lakhs+	ATM transactions per day (38% of the country's total ATM transactions)
17 crores+	State Bank Group debit card holders (43%+ market share)
1.77 crore+	sInternet banking users
95 lakhs	Mobile Banking users
1,35,853	POS machines
48 lakhs+	Green Remit Cards
52,260	Pan-India village coverage
61.60 lakhs	Kisan Credit Cards

CENTRAL BOARD OF DIRECTORS.

Chairman	SHRI Dinesh Kumar Khara
Managing Directors	Shri. C. S. Shetty
	Shri. Ashwani Bhatia
	Shri. Swaminathan J.
	Shri. Ashwini Kumar Tewari
Directors electedunder Section 19(c) of SBI Act	
	Shri. Shri B. Venugopal
	Dr. Ganesh Natarajan
	Ca. Shri. Ketan S. Vikamsey
	Shri. Mrugank M. Paranjape
	CA. Shri Sanjeev Maheshwari
	Ca. Shri Prafulla P Chhajed
	Shr. Sanjay Malhotra, IAS
	Shri. Anil Kumar Sharma.
	Shri B. VENUGOPAL

Term: 3 years and eligible for re-election for further period of 3 years

Maximum tenure: 6 years continuously

VISION

- My SBI.
- My Customer first.
- My SBI: First in customer satisfaction

MISSION

- We will be prompt, polite and proactive with our customers.
- We will speak the language of young India.
- We will create products and services that help our customers achieve their goals.
- We will go beyond the call of duty to make our customers feel valued.
- We will be of service even in the remotest part of our country.
- We will offer excellence in services to those abroad as much as we do to those in India.
- We will imbibe state-of-the-art technology to drive excellence.

VALUES

- We will always be honest, transparent and ethical.
- We will respect our customers and fellow associates.
- We will be knowledge driven.
- We will learn and we will share our learning.
- We will never take the easy way out.
- We will do everything we can to contribute to the community we work in.
- We will nurture pride in India.

SBI MAJOR PRODUCTS AND SERVICES

PRODUCTS

State Bank of India renders varieties of services to customers through the following products:

- SBI Term Deposits
- SBI Recurring Deposits
- SBI Housing Loan
- SBI Educational Loan
- SBI Loan For Pensioners
- Loan Against Mortgage Of Property
- Loan Against Shares & Debentures
- Rent Plus Scheme
- Medi-Plus Scheme
- Rates Of Interest

SERVICES

- DOMESTIC TREASURY
- SBI VISHWA YATRA FOREIGN TRAVEL CARD
- BROKING SERVICES
- REVISED SERVICE CHARGES
- ATM SERVICES
- INTERNET BANKING
- E-PAY
- E-RAIL
- RBIEFT
- SAFE DEPOSIT LOCKER
- GIFT CHEQUES
- MICR CODES FOREIGN INWARD REMITTANCES

Other Products and Services are:-

Working Capital Finance

SBI offers working capital finance to meet the entire range of short-term fund requirements that arise within a corporate's day-to-day operational cycle.

Project Finance

The SBI has formed a dedicated Project Finance Strategic Business Unit to assess credit proposals from and extend term loans for large industrial and infrastructure projects.

Deferred Payment Guarantees

SBI can extend deferred payment guarantees to industrial projects for obtaining imported equipment.

Corporate Term Loan

The SBI corporate term loans can support your company in funding on-going business expansion, repaying high cost debt, technology up gradation, R&D expenditure, leveraging specific cash streams that accrue into your company, implementing early retirement schemes and supplementing working capital

Structured Finance

SBI structured finance involves assembling unique credit configurations to meet the complex fund requirements of large industrial and infrastructure projects.

Dealer Financing

SBI extends financial support to the corporate distribution networks, by providing both working capital finance and term loans to select dealers of identified companies.

Loan Syndication

The SBI leverages its vast network of relationships to arrange syndicated credit products for corporate clients and industrial projects.

Equipment Leasing

The SBI's has deployed a dedicated Strategic Business Unit for lease financing that is richly experienced in arranging lease contracts for procuring expensive equipment for your project or plant.

CHAPTER 2

RESEARCH METHODOLOGY

2.1 OBJECTIVES OF STUDY

1. To Study the complete structure and history of State Bank of India.
2. To know the different methods available for credit appraisal.
3. To understanding the credit appraisal procedure used in State Bank Of India.
4. To identify the risks faced by the banking industry.
5. To trace out the process and system of risk management.
6. To gain insights into the credit risk management activities of the State Bank Of India.
7. To know the RBI Guidelines regarding credit rating and risk analysis.
8. To examine the techniques adopted by banking industry for risk management

LIMITATIONS:

1. This study is only restricted to State Bank of India only.
2. The result of the study may not be applicable to any other banks.
3. Since the part of the study is based on their perceptions, the findings may change over the years in keeping with changes in environmental factor.
4. The present study does not ascertain the views from the borrowers who are not directly concerned with management of non-performing assets.
5. The time constraint was a limiting factor, as more in depth analysis could not be carried.
6. Some of the information is of confidential in nature that could not be divulged for the study.
7. Employees were not co operative

2.2 RESEARCH METHODOLOGY

A research method is simply a technique for collecting data and involves a specific instrument such as a self-completion questionnaire or structured interview schedule, or participant observation whereby the researcher listens to and watches others" .There are two main research methods; qualitative and quantitative. Qualitative is geared primarily to the construction of qualitative data which consist mainly of Depth interviewing or focus groups. Quantitative on the other hand is geared primarily to the construction of quantitative data and consist of the usage of formal questionnaires techniques at some stage, whether for face to face interviews, telephone research, postal or postal research, or it may involve various forms of experimental or quasi experimental research.

This RESEARCH is theoretical modal based on the extensive research for which the secondary source of information has gathered. The sources include online publications, Books and journals. The present paper is a case study which is restricted to branch of SBI in park town branch. The objective of research paper is to study the Credit Risk Assessment Model of SBI Bank and to check the commercial, financial & technical viability of the project proposed & its funding pattern. To observe the movements to reduce various risk parameters which are broadly categorized into financial risk, business risk, industrial risk & management risk. For the purpose, the secondary data is collected through the Books & magazines, Database at SBI, Websites, E-circulars of SBI.

2.3 RESEARCH DESIGN

Research design provides the framework for the collection and analysis of data or it is the plan and structure of investigation so conceived as to obtain answers to research questions. This means it gives the procedure necessary for obtaining the information needed to solve the research problems. I have used a qualitative approach to interview bank managers because I believed that since they are experienced professionals in their field, they must probably have a deep and broader knowledge on the topic. Whereas descriptive and analytical methods have also been used

2.4 PURPOSE OF THE RESEARCH

- Risk Analysis and Risk Management has got much importance in the Indian Economy during this liberalization period. The foremost among the challenges faced by the banking sector today is the challenge of understanding and managing the risk.

- The very nature of the banking business is having the threat of risk imbibed in it. Banks' main role is intermediation between those having resources and those requiring resources. For management of risk at corporate level, various risks like credit risk, market risk or operational risk have to be converted into one composite measure.

- Therefore, it is necessary that measurement of operational risk should be in tandem with other measurements of credit and market risk so that the requisite composite estimate can be worked out. So, regarding to international banking rule (Basel Committee Accords) and RBI guidelines the investigation of risk analysis and risk management in banking sector is being most important.

2.5 Type of research:

We would select the conclusive method in which we would go for descriptive research design.

Descriptive research design is more structured and formal in nature. The objective of these studies is to provide a comprehensive and detailed explanation of the phenomena under study. Descriptive research, used often in social sciences and market research, is the study of how a particular group, person, or thing behaves. Observations are noted without influence.

Types of data:

We would select only qualitative data.

Qualitative data: Dept interview
Interview & Questioner was used

SAMPLE SIZE 50

Data collection Plan:

- By telephonic interview with the AGM of SBI

Sampling Plan:

Target population:

Top level officers and bank managers.

Sampling technique

We are planning to go for convenience sampling technique.

Convenience sampling technique:

Convenience sampling is a non-probability sampling technique where subjects are selected because of their convenient accessibility and proximity to the researcher.

2.6 DATA COLLECTION METHOD

To fulfill the objectives of my study, I have taken both into considerations viz primary &

Primary data: Primary data has been collected through personal interview by direct contact method. The method which was adopted to collect the information is „Personal Interview' method.

Personal interview and discussion was made with manager and other personnel in the organization for this purpose.

Secondary data: The data is collected from the Magazines, Annual reports, Internet, Text books. The various sources that were used for the collection of secondary data are Internal files & materials.

2.7 HYPOTHESIS

Consumer in India are preferring SBI for Loans as compared to any Other bank

COMPONENTS OF CREDIT AUDIT:

Sanction process

: In a bank/financial institution, the sanction of a credit facility (funded loan as well as non-funded facility-for example, guarantees, letters of credit etc.)As well as investment in marketable securities have to go through channels fixed by the institution according to its needs and systems and procedures. Generally, the process goes through the following steps:

a) Receipt of credit application from the client at the operating unit, like the branch of the bank concerned.

b) Scrutiny of the application in the light of the bank's norms and guidelines as well as specific directives of the RBI.

c) Preparation of an assessment note (credit proposal) after verifying the necessary aspects of the borrowers and guarantors, if any (this includes credentials study, physical inspection of the business site/securities, this involves details of the issuer, terms and conditions of securities.

d) Exercise of the financial powers of the delegated authorities for sanction.

Disbursement modality This is the consequence of the sanction process and includes:

a) Security documentation as per the terms and conditions of sanction.

b) Pre-disbursement physical inspection of the business site/place for business lending.

c) In the case of acquisition of capital assets/investment in securities, direct payment to the seller/insurer concerned is to be made to ensure proper end-use.

Compliance:

: It is necessary that the bank/financial institution comply with regulatory guidelines and its internal norms/systems during the sanction process, the disbursement stage and the post-disbursement stage/In fact, throughout the tenure of any credit/investment asset in the books, the bank/financial institution must ensure that no guidelines are breached. The RBI'S new Risk Based Supervision System will focus, inter alia, on the 'compliance' angle of the bank/financial institution. Non-compliance may invite penal measures.

Monitoring:

: The credit audit process ensures that the bank/financial institution concerned follows necessary monitoring measures so that the asset quality (loan/investment) remains at an acceptable level, and in cases of signs of deterioration, necessary rectification measures are initiated. Monitoring is an ongoing mechanism and in reality, a safety valve for a bank/financial institution.

Therefore, a credit audit is complementary to the entire credit risk management system.

HOW CREDIT AUDITS ARE TO BE CONDUCTED:

1) An in-house department may be set up with professionally qualified and

experienced people.

2) In the alternative, an arrangement may be made with professionals' institutions to undertake such an audit (business process outsourcing)

3) Credit audit is to be restricted to the records mentioned with respect to appraisal, post-sanction supervision and follow up.

4) Credit audit does not usually involve the physical verification of securities/visit borrower's factory/premises.

5) The credit audit process may cover all credit records/documents or a statistical sampling of a batch of records. According to RBI guidelines, in banks/financial institutions, all fresh credit decisions and renewal cases in the past three-six months (Preceding the date of commencement of the credit) should be subjected to the credit) audit process. A random selection of 5-10%may be made from the rest of the portfolio.

6) Credit audit is an ongoing process. However, for individual accounts, the frequency depends upon the quality of the accounts. The audit may even be on a quarterly basis in the case of high-risk accounts.

7) Large banks/financial institutions usually prefer to cover credit audit with a cut-off size (say, individual exposures of Rs 3-5 crores and over) on a half-yearly basis through their in-house officials.

RBI Guidelines on Credit Audit:

Credit audit examines compliance with extant sanctions and post-sanction processes/procedures laid down by the bank from time to time and is concerned with the following aspects:-

OBJECTIVES OF CREDIT AUDIT:

-Improvement in the quality of the credit portfolio

-Reviewing the sanction process and compliance status of large loans.

-Feedback on regulatory compliance.

-Independent review of credit risk assessment.

-Picking up early warning signals and suggesting remedial measures.

-Recommending corrective action to improve credit quality, credit administration and credit skills of staff, etc.

STRUCTURE OF THE CREDIT AUDIT DEPARTMENT:

The credit audit/loan review mechanism may be assigned to a specific department or the inspection and audit department.

Functions of the credit audit department:

-To process credit audit reports.

Credit Risk Management:

-To analyse credit audit findings and advise the departments/functionaries concerned.

-To follow up with the controlling machines.

-To apprise the top management.

-To process the responses received and arrange for the closure of the relative credit audit reports.

-To maintain a database of advances subjected to credit audit.

Scope and coverage:

The focus of credit audit needs to be broadened from the account level to kook at the overall portfolio and the credit process being followed. The important areas are:

Portfolio review: Examining the quality of credit and investment (quasi-control) portfolio and suggesting measures for improvement, including the reduction of concentrations in certain sectors to levels indicated in the loan policy and prudential limits suggested by the RBI.

Loan review:

Review of the sanction process and status of post-sanction process/procedures (not just restricted to large accounts). These include:

-All proposals and proposals for renewal of limits (within three-six months from the date of sanction).

-All existing accounts with sanction limits equal to or above a cut-off point, depending upon the size of activity.

-Randomly selected (say 5-10%) proposals from the rest of the portfolio.

-Accounts of sister concerns/groups/associate concerns of the above accounts, even if the limit is less than the cut-off point.

Action points for review:

-Verifying compliance with the bank's policies and regulatory compliance with regard to sanction.

-Examining the adequacy of documentation.

-Conducting the credit risk assessment.

-Examining the conduct of account and follow-up looked at by line functionaries.

-Overseeing action taken by line functionaries on serious irregularities.

-Detecting early warning signals and suggesting remedial measures.
Frequency of review:

Credit Risk Management:

The frequency of review varies depending on the magnitude of risk (say, three months for highrisk accounts, and six months for average risk accounts, one year for low-risk accounts).

-Feedback on general regulatory compliance.

-Examining adequacy of policies, procedures and practices.

-Reviewing the credit risk assessment methodology.

-Examining the reporting system and exceptions to them.

-Recommending corrective action for credit administration and credit skills of staff.

-Forecasting likely happenings in the near future.

PROCEDURE TO BE FOLLOWED FOR CREDIT AUDIT:

-A credit audit is conducted on-site, i.e. at the branch which has appraised the advance and where the main operative credit limits are made available.

-Reports on the conduct of accounts of allocated limits are to be called from the corresponding branches.

-Credit auditors are not required to visit borrower's factory/office premises.

MODEL FORMAT OF CREDIT AUDIT REPORT

(RBI has not specifically prescribed any format)

Here's a model report for the credit audit for bank credit/loan accounts. The format may be modified to meet organization-specific requirements.

GOOD BANK LTD.

CREDIT AUDIT

SPECIMEN REPORT FORMAT (ACCOUNT-WISE)

Period covered in the report (from....................to.......................)
Credit audit report as on...

Credit Risk Management:

-Name of the borrower and group affiliation, if any:

-Main place of business/registered office:

-Date of establishment/incorporation:

-Line of activity/business segment: -Financing pattern Sole/multiple/consortium

Share (percentage and amount of credit limit for such a lender):-Date and authority of last sanction/renewal:-Credit rating by the bank/rating agency and what it indicates:-Total exposure (funded and non-funded)

To the party:

To the group (if any):

To state specifically if there is any foreign currency loan/commitment:

Credit arrangement with the bank/financial institution: (Rs. In lakhs, Overdue since when) Facility Limit/line Outstanding Amount of Overdoes, if any Comments:

-Whether guidelines laid down have been adhered to while appraising/assessing:

-Comments on industry averages for inventory, receivables, creditors etc.

taken into account 43 Credit Risk Management.

-Comments on financial performance of the party vis- a-vis estimates and industry

position, if available:

-Whether management quail- ties were analyzed at sanction/renewal stage:

-Any other important issues:

-Whether all the terms and conditions of the sanction were complied with, if not details and reasons and when the same is expected to be done Comments on first disbursement of facilities (applicable for fresh sanctions.) Sanctions cover stipulated as per sanction: Securities Deficiencies, if any Security documentation Date of document Details of unrectified irregularities, if any Whether charge filed with ROC (Registrar of Company).

The Structure of Indian Banking:

The Indian banking industry has Reserve Bank of India as its Regulatory Authority. This is a mix of the Public sector, Private sector, Co-operative banks and foreign banks. The private sector banks are again split into old banks and new banks.

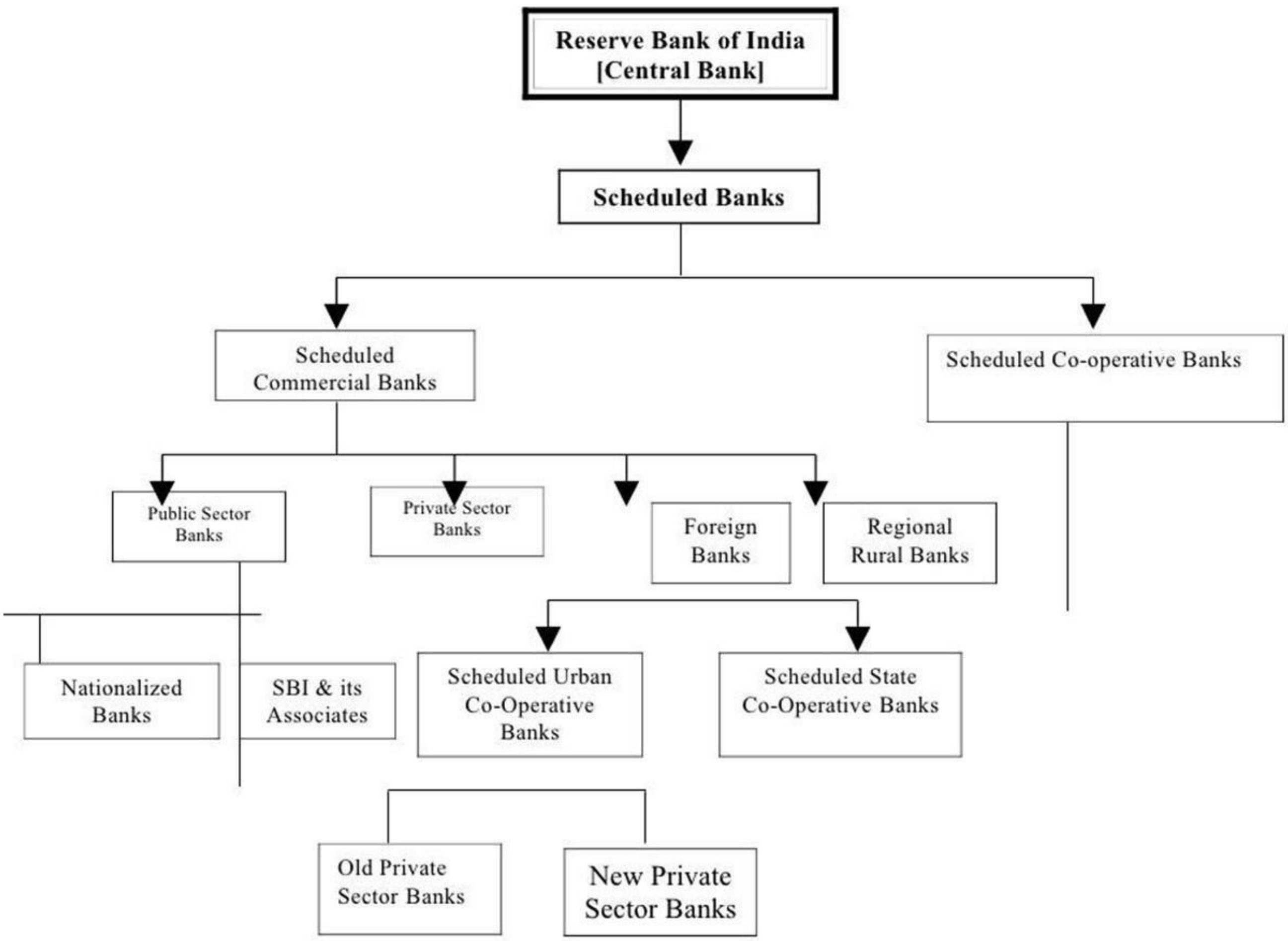
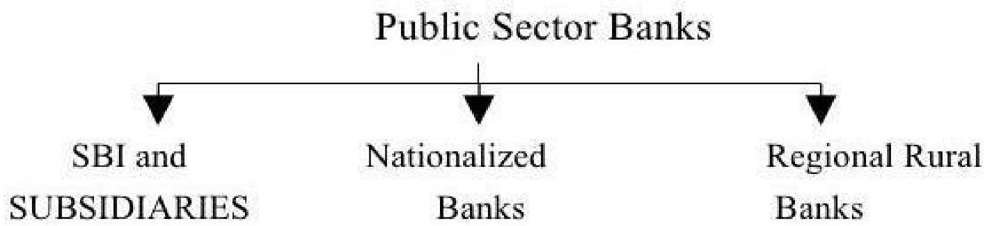


Chart Showing Three Different Sectors of Banks

i) Public Sector Banks

ii) Private Sector Banks



SBI and subsidiaries

This group comprises of the State Bank of India and its seven subsidiaries viz., State Bank of Patiala, State Bank of Hyderabad, State Bank of Travancore, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Saurashtra, State Bank of India

State Bank of India (SBI) is the largest bank in India. If one measures by the number of branch offices and employees, SBI is the largest bank in the world. Established in 1806as Bank of Bengal it is the oldest commercial bank in the Indian subcontinent. SBI provides various domestic, international and NRI products and services, through its vast network in India and overseas. With an asset base of $126 billion and its reach, it is a regional banking behemoth. The government nationalized the bank in1955, with the Reserve_bank of India taking a 60% ownership stake. In recent years the bank has focused on two priorities, 1), reducing its huge staff through Golden handshakeschemes known as the Voluntary Retirement Scheme, which saw many of its best and brightest defect to the private sector, and 2), computerizing its operations.

ABOUT LOGO

THE PLACE TO SHARE THE NEWS ....……

SHARE THE VIEWS ……

Togetherness is the theme of this corporate loge of SBI where the world of banking services meet the ever changing customers needs and establishes a link that is like a circle, it indicates complete services towards customers. The logo also denotes a bank that it has prepared to do anything to go to any lengths, for customers.

The blue pointer represent the philosophy of the bank that is always looking for the growth and newer, more challenging, more promising direction. The key hole indicates safety and security.

MISSION, VISION AND VALUES

MISSION STATEMENT:

To retain the Bank's position as premiere Indian Financial Service Group, with world class standards and significant global committed to excellence in customer, shareholder and employee satisfaction and to play a leading role in expanding and diversifying financial service sectors while containing emphasis on its development banking rule.

VISION STATEMENT:

- Premier Indian Financial Service Group with prospective world-class Standards of efficiency and professionalism and institutional values.

- Retain its position in the country as pioneers in Development banking.

- Maximize the shareholders value through high-sustained earnings per Share.

- An institution with cultural mutual care and commitment, satisfying and Good work environment and continues learning opportunities.

VALUES:

- Excellence in customer service
- Profit orientation
- Belonging commitment to Bank
- Fairness in all dealings and relations
- Risk taking and innovative

PROPOSED RISK WEIGHT TABLE

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ To B-	Below B-	Unrated
Sovereign(Govt.& Central Bank)	0%	20%	50%	100%	150%	100%
Claims on Banks						
Option 1	20%	50%	100%	100%	150%	100%
Option 2a	20%	50%	50%	100%	150%	50%
Option 2b	20%	20%	20%	50%	150%	20%
Corporate	20%					

Option 1 = Risk Weight based on risk weight of the country

Option 2a = Risk weight based on assessment of individual bank

Option 2b = Risk Weight based on assessment of individual banks with claims of origina maturity of less than 6 months.

Retail Portfolio(subject to qualifying criteria) 75%

Claims Secured by residential property 35%

Non Performing Assets:

If specific provision is less than 20% 150%

If specific provision is more than 20% 100%

- Simple approach similar to Basel I

- Risk weight for each balance sheet & off balance sheet item. That is, FB & NFB, both.
- Risk weight for Retail reduced
- Risk weight for Corporate - according to external rating by agencies approved by RBI and registered with SEBI
- Lower risk weight for smaller home loans (< 20 lacs)
- Risk weight for unutilized limits = (Limit- outstanding) >0 ➔ Importance of reporting limit data correctly (If a limit of Rs.10 lacs is reported in Limit field as Rs.100 lacs, even with full utilisation of actual limit, Rs. 90 lacs will be shown as unutilised limit, and capital allocated against such fictitious data at prescribed rates).

Risk weights

- Central Government guaranteed – 0%
- State Govt. Guaranteed – 20%
- Scheduled banks (having min. CRAR) – 20%
- Non-scheduled bank (having min. CRAR) -100%
- Home Loans (LTV ≤ 75%)
    - Less than Rs 20 lakhs – 50%
    - Rs 20 lakhs and above – 75%
- Home Loans (LTV > 75%) – 100%
- Commercial Real estate loans – 150%
- Personal Loans and credit card receivables- 125%

ATM SERVICES

STATE BANK NETWORKED ATM SERVICES

State Bank offers you the convenience of over 8000 ATMs in India, the largest network in the country and continuing to expand fast! This means that you can transact free of cost at the ATMs of State Bank Group (This includes the ATMs of State Bank of India as well as the Associate Banks – namely, State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Indore, State Bank of Mysore, State Bank of Patiala, State Bank of Saurashtra, and State Bank of Travancore) and wholly owned subsidiary viz. SBI Commercial and International Bank Ltd., using the State Bank ATM-cum-Debit (Cash Plus) card.

KINDS OF CARDS ACCEPTED AT STATE BANK ATMs

Besides State Bank ATM-Cum-Debit Card and State Bank International ATM-Cum-Debit Cards following cards are also accepted at State Bank ATMs: -

1) State Bank Credit Card

2) ATM Cards issued by Banks under bilateral sharing viz. Andhra Bank,Axis Bank, Bank of India, The Bank of Rajasthan Ltd., Canara Bank, Corporation Bank, Dena Bank, HDFC Bank, Indian Bank, Indus Ind Bank, Punjab National Bank, UCO Bank and Union Bank of India.

3) Cards issued by banks (other than banks under bilateral sharing) displaying Maestro, Master Card, Cirrus, VISA and VISA Electron logos

4) All Debit/ Credit Cards issued by any bank outside India displaying Maestro, Master Card, Cirrus, VISA and VISA Electron logos

Note: If you are a cardholder of bank other than State Bank Group, kindly contact your Bank for the charges recoverable for usage of State Bank ATMs.

v

STATE BANK INTERNATIONAL ATM-CUM-DEBIT CARD

Eligibility:

All Saving Bank and Current Account holders having accounts with networked branches and are:

- 18 years of age & above
- Account type: Sole or Joint with "Either or Survivor" / "Anyone or Survivor"
- NRE account holders are also eligible but NRO account holders are not.

Benefits:

- . Convenience to the customers traveling overseas
- . Can be used as Domestic ATM-cum-Debit Card
- • Available at a nominal joining fee of Rs. 200/-

- Daily limit of US $ 1000 or equivalent at the ATM and US $ 1000 or equivalent at Point of Sale (POS) terminal for debit transaction
- Purchase Protection*up to Rs. 5000/- and Personal Accident cover*up to Rs. 2,00,000/-
- Charges for usage abroad: Rs. 150+ Service Tax per cash withdrawal Rs. 15 + Service Tax per enquiry.

State Bank ATM-cum-Debit (State Bank Cash plus) Card:

India's largest bank is proud to offer you unparalleled convenience viz. State Bank ATM-cum-Debit(Cash Plus) card. With this card, there is no need to carry cash in your wallet. You can now withdraw cash and make purchases anytime you wish to with your ATM-cum-Debit Card.

Get an ATM-cum-Debit card with which you can transact for FREE at any of over 8000 ATMs of State Bank Group within our country.

SBI GOLD INTERNATIONAL DEBIT CARDS

E-PAY

Bill Payment at Online SBI (e-Pay) will let you to pay your Telephone, Mobile, Electricity, Insurance and Credit Card bills electronically over our Online SBI website

E-RAIL

Book your Railways Ticket Online.

The facility has been launched wef Ist September 2003 in association with IRCTC. The scheme facilitates Booking of Railways Ticket Online.

The salient features of the scheme are as under:

- All Internet banking customers can use the facility.
- On giving payment option as SBI, the user will be redirected to onlinesbi.com. After logging on to the site you will be displayed payment amount, TID No. and Railway reference no.
- . The ticket can be delivered or collected by the customer.
- The user can collect the ticket personally at New Delhi reservation counter .
- The Payment amount will include ticket fare including reservation charges, courier charges and Bank Service fee of Rs 10/. The Bank service fee has been waived unto 31st July 2006.

SAFE DEPOSIT LOCKER

For the safety of your valuables we offer our customers safe deposit vault or locker facilities at a large number of our branches. There is a nominal annual charge, which depends on the size of the locker and the centre in which the branch is located.

NRI HOME LOAN

SALIENT FEATURES

Purpose of Loan

Loans to NRIs & PIOs can be extended for the following purposes.

- To purchase/construct a new house / flat
- To repair, renovate or extend an existing house/flat
- To purchase an existing house/flat
- To purchase a plot for construction of a dwelling unit.
- To purchase furnishings and consumer durables, as a part of the project cost

AGRICULTURE / RURAL

State Bank of India Caters to the needs of agriculturists and landless agricultural labourers through a network of 6600 rural and semi-urban branches. here are 972 specialized branches which have been set up in different parts of the country exclusively for the development of agriculture through credit deployment. These branches include 427 Agricultural Development Branches (ADBs) and 547 branches with Development Banking Department (DBDs) which cater to agriculturists and 2 Agricultural Business Branches at Chennai and Hyderabad catering to the needs of hitech commercial agricultural projects.

THEORETICAL BACKGROUND OF CREDIT RISK MANAGEMENT

CREDIT:

The word 'credit' comes from the Latin word 'credere', meaning 'trust'. When sellers transfer his wealth to a buyer who has agreed to pay later, there is a clear implication of trust that the payment will be made at the agreed date. The credit period and the amount of credit depend upon the degree of trust.

Credit is an essential marketing tool. It bears a cost, the cost of the seller having to borrow until the customers payment arrives. Ideally, that cost is the price but, as most customers pay later than agreed, the extra unplanned cost erodes the planned net profit.

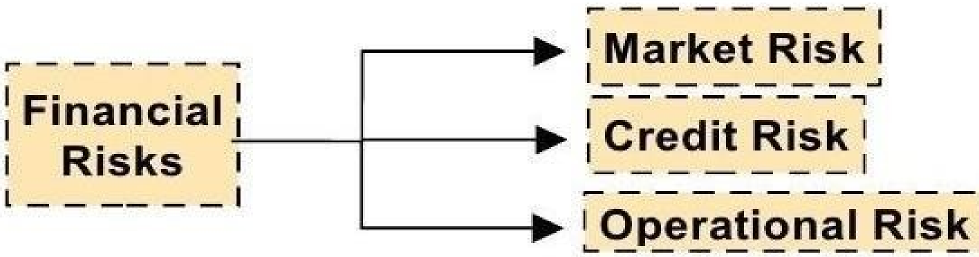
RISK :

Risk is defined as uncertain resulting in adverse out come, adverse in relation to planned objective or expectation. It is very difficult o find a risk free investment. An important input to risk management is risk assessment. Many public bodies such as advisory committees concerned with risk management. There are mainly three types of risk they are follows

- Market risk
- Credit Risk
- sOperational risk

Risk analysis and allocation is central to the design of any project finance, risk management is of paramount concern. Thus quantifying risk along with profit projections is usually the first step in gauging the feasibility of the project. once risk have been identified they can be allocated to participants and appropriate mechanisms put in place.

Types of Financial Risks



MARKET RISK:

Market risk is the risk of adverse deviation of the mark to market value of the trading portfolio, due to market movement, during the period required to liquidate the transactions.

OPERTIONAL RISK:

Operational risk is one area of risk that is faced by all organization s. More complex the organization more exposed it would be operational risk. This risk arises due to deviation from normal and planned functioning of the system procedures, technology and human failure of omission and commission. Result of deviation from normal functioning is reflected in the revenue of the organization, either by the way of additional expenses or by way of loss of opportunity.

CREDIT RISK:

Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms, or in other words it is defined as the risk that a firm's customer and the parties to which it has lent money will fail to make promised payments is known as credit risk

The exposure to the credit risks large in case of financial institutions, such commercial banks when firms borrow money they in turn expose lenders to credit risk, the risk that the firm will default on its promised payments. As a consequence, borrowing exposes the firm owners to the risk that firm will be unable to pay its debt and thus be forced to bankruptcy.

CONTRIBUTORS OF CREDIT RISK:

- Corporate assets
- Retail assets
- Non-SLR portfolio
- May result from trading and banking book
- Inter bank transactions
- Derivatives
- Settlement, etc

KEY ELEMENTS OF CREDIT RISK MANAGEMENT:

- Establishing appropriate credit risk environment
- Operating under sound credit granting process
- Maintaining an appropriate credit administration, measurement & Monitoring
- Ensuring adequate control over credit risk
- Banks should have a credit risk strategy which in our case is communicated throughout the organization through credit policy.

SAFE DEPOSIT LOCKER

For the safety of your valuables we offer our customers safe deposit vault or locker facilities at a large number of our branches. There is a nominal annual charge, which depends on the size of the locker and the centre in which the branch is located.

NRI HOME LOAN

SALIENT FEATURES

Purpose of Loan

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v

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CHAPTER 3

REVIEW OF LITERATURE

3.1 CREDIT RISK MANAGEMENT

Preamble

This policy seeks to lay down the Bank's approach to the management of Credit Risk and put in place a comprehensive framework for identification, assessment, monitoring, management and reporting of Credit Risk in a timely and efficient manner. Credit Risk Management operate within the framework of the Bank's Corporate Vision and Mission, Risk appetite, concomitant with prudential controls and should be in line with the regulatory compliance needs. The Policy also seeks to create systems and procedures to actively mitigate Credit Risks, optimize resources primarily to protect the Bank against the downside and at the same time provide an appropriate and reasonable return commensurate with the risk profile adopted.

Definition

Credit risk estimates from a bank's dealings with an Individual, Corporate, Bank, Financial Institution or a Sovereign.

Scope of the Policy

The Credit Risk Management Policy as enunciated herein covers the Bank's Domestic as well as Foreign Operations. In addition to these guidelines, International Banking Group shall formulate a similar framework for Bank's Foreign Offices keeping in view the Regulations / Parameters laid down by the host Country Central Banks / Regulators, the directions of the Reserve Bank of India and also that of the Bank's Board in this regard from time to time.

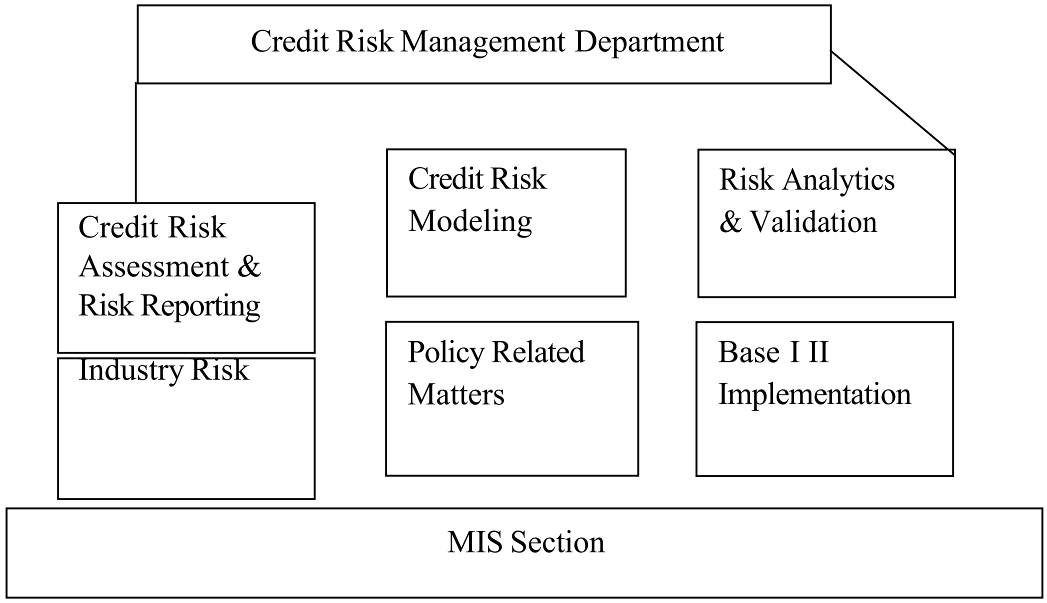
CRM policy provides a broad framework for management of Credit Risk, within which the Business Groups / Business Units / Departments Corporate Centre are expected to formulate procedures for management of Credit Risk inherent to their respective products and services.

RISK GOVERNANCE STRUCTURE IN STATE BANK OF INDIA

An independent Risk Governance structure in line with the international best practices has to be put in place by Banks. A 'Chief Risk Officer' position at the Board level to be created in the Bank for integrated Risk Management with separate Departments under him/her for Credit, Market and Operational risks. Since the Risk Governance Framework brings together all Risk Management Departments under one umbrella, it provides an integrated view of risk as a whole and facilities adoption of a holistic approach.

The following table will give an outline of architecture for management of risks Banks.

Risk Type	Architecture
Credit Risk (Domestic Loans)	Credit Policy & Procedures Committee (CPPC) and Credit Risk Management Committee (CRMC)
Market Risk (Investments including liquidity risk)	Asset and Liability Management Committee (ALCO)
Credit Risk (International Exposures)	Credit Policy & Procedures Committee (CPPC) and Credit Risk Management Committee (CRMC)
Operational Risk	Operational Risk Management Committee (ORMC)
Overall Risk Management	Risk Management Committee of the Board (RMCB)



The Credit Risk Management Structure, thus, falls within the Integrated Risk Management Structure of the Bank as outlined above.

Credit Risk Management Committee (CRMC)

The Credit Risk Management Committee (CRMC) shall comprise of the following:

- MD & CCRO – Chairman
- CGM (Risk Management)
- CGM (Financial Control)
- CGM (Internal Audit)
- CGM (Corporate Accounts Group)
- CGM (Mid-Corporate)
- CGM (Foreign Offices)
- CGM (Global Markets)

TYPES OF RISKS TO WHICH THE BANKS ARE EXPOSED.

Banks in the process of financial intermediation are confronted with various types of financial as well as non-financial risks, Viz., credit, interest rate, foreign exchange rate, liquidity, and equity price, commodity price, legal, regulatory, reputational and operational risks. These are highly interdependent and events that affect the area of risks can have ramification for a range of other risk categories.

Credit Risk

It is defined as the possibility of loss associated with diminution in the credit quality of borrowers or counter parties. In a bank's portfolio, losses stem from outsight default due to inability or unwillingness of a customer or counterparty to meet commitments relating to lending, trading, settlement and other financial transactions

Market Risk

It is defined as the possibility o losses caused by changes in the market variables. Market risk is the to the bank's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities therein.

Operational Risk

It is defined by the Basel Committee as 'the risk of direct or indirect loss resulting from inadequate or failed internal process, people and systems or from external events'. RBI defines operation risk as any risk which is not categorized as market or credit risk, or the risk of loss arising from human or technical errors, or from external events.

The exposure to the credit risks large in case of financial institutions, such commercial banks when firms borrow money, they in turn expose lenders to credit risk, the risk that the firm will default on its promised payments. As a consequence, borrowing exposes the firm owners to the risk that firm will be unable to pay its debt and thus be forced to bankruptcy.

CONTRIBUTORS OF CREDIT RISK:

- Corporate assets
- Retail assets
- Non-SLR portfolio
- May result from trading and banking book
- Interbank transactions
- Derivatives
- Settlement, etc

Steps involved in Risk Management

The steps involved in managing risks are:

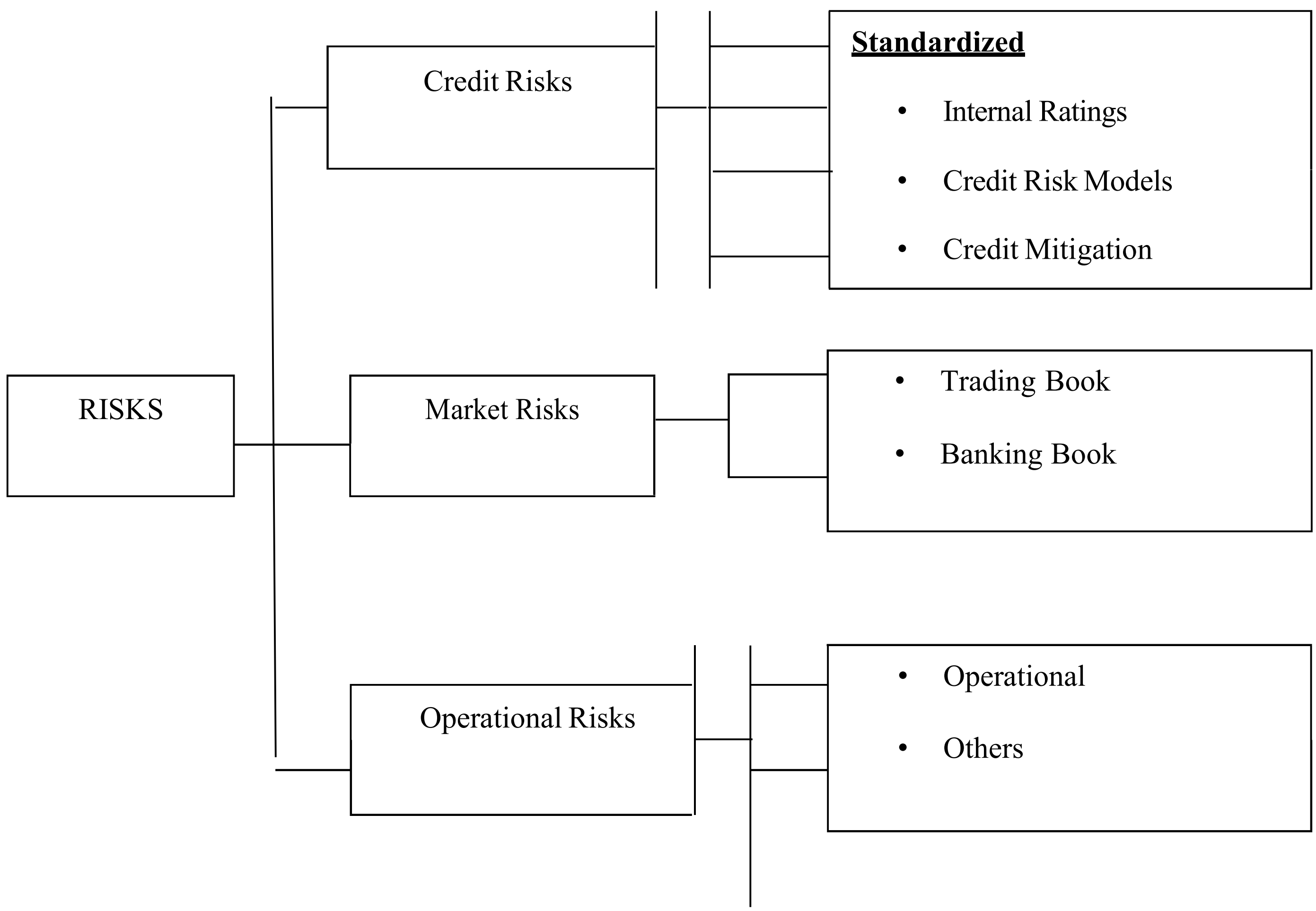
- Identification
- Measurement
- Monitoring
- Controlling

Identification and measurement of risks will help in categorization of risks into High, Medium and Low to enable the bank to initiate steps for monitoring and controlling. These steps are a continuing process.

KEY ELEMENTS OF CREDIT RISK MANAGEMENT:

- Establishing appropriate credit risk environment
- Operating under sound credit granting process
- Maintaining an appropriate credit administration, measurement & Monitoring
- Ensuring adequate control over credit risk
- Banks should have a credit risk strategy which in our case is communicated throughout the organization through credit policy.

Steps to follow to minimize different type of risks: -



CREDIT RATING.

Definition:-

Credit rating is the process of assigning a letter rating to borrower indicating that creditworthiness of the borrower.

Rating is assigned based on the ability of the borrower (company). To repay the debt and his willingness to do so. The higher rating of company the lower the probability of its default.

Use in decision making:-

Credit rating helps the bank in making several key decisions regarding credit including

1. Whether to lend to a particular borrower or not; what price to charge?

2. What are the products to be offered to the borrower and for what tenure?

3. At what level should sanctioning be done, it should however be noted that credit rating is one of inputs used in credit decisions.

4. There are various factors (adequacy of borrowers, cash flow, collateral provided, and relationship with the borrower)

5 .Probability of the borrowers default based on past data.

3.2 CREDIT RISK ASSESSMENT PROCESS IN STATE BANK OF INDIA

- Before a credit facility is sanctioned to any Client / Obligor, the risk level should be measured, as per the relevant Credit Risk Assessment (CRA) Model developed by CRMD.
- The appraisal process should involve an in-depth study of the financial, commercial, technical and managerial aspects of the Borrower and of the risk arising from the Industry or Industries to which the Borrower belongs.
- For each credit proposal, a credit rating would be assigned using the internal credit rating system.
- The Bank has developed Credit Risk Assessment (CRA) Models, which are used for assessing the Credit Risk of Working Capital, Term Loan and Non-fund based exposures to Commercial and Institutional borrowers, SSI, Trade & Services and Agriculture segments for exposures of RS 25 lacks and above, but upto RS. 5 Crores (Simplified Model) and for exposures in excess of RS. 5 Crores (Regular Model). Under each category, there are separate models for the Trading and Non-Trading Sectors.
- The rating process would entail a comprehensive evaluation of the Borrower, the Industry, the Borrower's business position in the Industry and the techno-economic aspects of the Project (if any), the financial position of the Borrower and the quality of the management.
- Thus, the rating would reflect the risk involved in the facility / borrower and would be an evaluation of the borrower's intrinsic strength.
- The rating should be reviewed periodically and update at yearly intervals. The risk rating of facilities assigned the lowest pass grades should invariably be reviewed at half-yearly intervals.
- Entry barriers have been prescribed in the CRA Models. A proposal obtaining Zero score in the entry barrier would not be subject to further process and stand declined. No deviation is envisaged to be permitted in this regard.
- The CRA models adopted by the Bank prescribe hurdle rates / minimum scorers for new connections / enhancements. Proposals below hurdle rates may be considered with a approval of the appropriate authority as provided in the loan policy.

In simple terms, Credit Appraisal Process is

Receipt of application from applicant

|

Receipt of documents (Balance sheet, KYC papers, Different govt.registration no., MOA, AOA, and Properties documents)

|

Pre-sanction visit by bank officers

|

Check for RBI defaulters list, willful defaulters list, CIBIL data, ECGC caution list, etc.

|

Title clearance reports of the properties to be obtained from empanelled advocates

|

Valuation reports of the properties to be obtained from empanelled valuer /engineers

|

Preparation of financial data

|

Proposal preparation

|

Assessment of proposal

|

Sanction/approval of proposal by appropriate sanctioning authority

|

Documentations, agreements, mortgages

|

Disbursement of loan

|

Post sanction activities such as receiving stock statements, review of accounts, renew of accounts, etc. (On regular basis)

Credit Risk Assessment Some Major Parameters Are

- Financial Parameters
- Business and Industry risk Parameters
- Management Parameters

Financial Parameters

The assessment of financial risk involves appraisal of the financial strength of the Borrower based on performance and financial indicators. The overall financial risk is assessed in terms of static ratios, year on year movements, future prospects and risk mitigation (Collateral security / financial standing)

Business and Industry risk Parameters

The following characteristics of an industry risk & business risk which pose varying degrees of risk are built into the Bank's CRA model:

- Competition & Market Risk
- Industry outlook
- Regulatory risk
- Industry Cyclicality
- Input and output profile
- Capacity utilization
- Technology and Contemporary issues like R&D, Distribution network etc.

RBI'S GUIDELINES ON THE CREDIT FRAMEWORK IN BANKS

- The grades used in the internal Credit Risk Grading System should represent, without any ambiguity, the default risks associated with an exposure and enable top management in decision making. The process of risk identification and risk assessment has to be further refined over a period of time.

- A Rating Scale could consist of 9 levels, of which 1 to 5 represent various grades of acceptable Credit Risk and levels 6 to 9 represent various grades of unacceptable Credit Risk associated with an exposure.

- A bank can initiate the risk grading activity at a relatively smaller/narrower scale, and introduce new categories as the risk gradation improves.

- The calibration on the 'Rating Scale' is expected to define the pricing, and related terms and conditions for the accepted credit exposures.

- Movement of an existing exposure to the unacceptable category of Credit Risk should directly identify the extent of provisioning (loan loss reserves) that needs to be earmarked for expected losses. Banks should develop their own internal norms, and maintain certain level of 'reasonable over-provisioning' as the best practice.

- Rating assigned to each credit proposal to lead into the related decisions of acceptance (or rejections), amount, tenure and pricing.

- Credit rating framework could be separate for relatively peculiar businesses like banking, finance companies, real estate developers, etc. For all industries, a common CRF may be used.

CREDIT FILES:-

It's the file, which provides important source material for loan supervision in regard to information for internal review and external audit. Branch has to maintain separate credit file compulsorily in case of Loans exceeding Rs 50 Lakhs which should be maintained for quick access of the related information.

Contents of the credit file:-

- Basic information report on the borrower
- Milestones of the borrowing unit
- Competitive analysis of the borrower
- Credit approval memorandum
- Financial statement
- Copy of sanction communication
- Security documentation list
- Dossier of the sequence of events in the accounts
- Collateral valuation report
- Latest ledger page supervision report
- Half yearly credit reporting of the borrower
- Quarterly risk classification

3.3 COMPONENTS OF CREDIT RISK

Size of Expected Loss	"Expected Loss"	=	EL
			=
1. What is the probability of a default (NPA)?	Probability of Default (Frequency)	=	PD
2. How much will be the likely exposure in the case the advance becomes NPA?	Exposure at Default	=	EaD X
3. How much of that exposure is the bank going to lose?	Loss Given Default "Severity"	=	LGD

3.4 CREDIT POLICY:

Bank's investments in accounts receivable depends on: (a) the volume of credit sales, and (b) the collection period. There is one way in which the financial manager can affect the volume of credit sales and collection period and consequently, investment in accounts receivables. That is through the changes in credit policy. The term credit policy is used to refer to the combination of three decision variables: (1) credit standards, (2) credit terms, and (3) collection efforts, on which the financial manager has influence.

Credit Standards:

Credit Standards are criteria to decide the types of customers to whom goods could be sold on credit. If a firm has more slow-paying customers, its investment in accounts receivable will increase. The firm will also be exposed to higher risk of default.

Credit Terms:

Credit Terms specify duration of credit and terms of payment by customers. Investment in accounts receivables will be high if customers are allowed extended time period for making payments.

Collection Efforts:

Collection efforts determine the actual collection period. The lower the collection period, the lower the investment in accounts receivable and higher the collection period, the higher the investment in accounts receivable.

OBJECTIVES OF CREDIT POLICY

- A balanced growth of the credit portfolio which does not compromise safety.
- Adoption of a forward-looking and market responsive approach for moving into profitable new areas of lending whish emerges, within the pre-determined exposure ceilings.
- Sound risk management practices to identify measure, monitor and control credit risks.
- Maximize interest yields from the credit portfolio through a judicious management of varying spreads for loan assets based upon their size, credit rating and tenure
- Ensure due compliance of various regulatory norms, including CAR, Income Recognition and Asset Classification.
- Accomplish balanced deployment of credit across various sectors and geographical regions.
- Achieve growth of credit to priority sectors / sub sectors and continue to surpass the targets stipulated by Reserve Bank of India.
- Use pricing as a tool of competitive advantage ensuring however that earnings are protected.
- Develop and maintain enhanced competencies in credit management at all levels through a combination of training initiatives and dissemination of best practices.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

Credit policy:

- The credit policy document is a document which carefully specifies the do's and don'ts while sanctioning the loan proposals.
- As loan proposals differ widely from each other, there cannot be a strict methodology for accepting or rejecting the proposals.
- Instead, guidelines can be given within the credit policy for the decision makers to enable them to screen out loans, which can be out rightly rejected.
- Loans that can be sanctioned without any reference to the top management and proposals that require a certain amount of top-level decision-making.
- The credit policy of a bank consists of five major components.

RBI Guidelines for credit policy:

- As per RBI's guidelines at least 40% of the net bank credit should be given to the priority sector, of which 18% would be for Agriculture and 10% to the weaker sections of the society.
- RBI, NABARD and State Level Bankers Committee (SLBC) govern the credit policy and procedures with respect to agricultural sector.
- Depending on the segments, the policies and procedures could differ substantially.
- The introduction of Service Area Approach in 1989 prompted each bank's branch to prepare its own Service Area Plan based on the village profile, skills and available resources. Such Service Area Plans would then be integrated with the annual growth plan of a bank's branch.

4.1 THE TABLE BELOW SHOWS ADVANCES OF PUBLIC SECTOR BANKS TO PRIORITY SECTOR PERCENT.

Name of the Bank Percent	**Total agricultural advances (%)**	**Weaker section (%)**	**Total priority sector advances (%)**
Canara Bank	15.7	6	48.2
Syndicate Bank	17.4	10.1	39.9
IDBI Ltd.	2.2	0.3	15.2
SBI	12.6	5.4	41

Interpretation:

From the above table, we can understand that SBI is complying with the Credit policy guidelines issued by RBI. The other top performing banks mentioned above like Canara bank is issuing more credit than the prescribed rate by RBI, which is generating more risk to the bank, whereas the other two banks are not even withstanding with the credit policy issued by RBI.

4.2 THE BELOW TABLE SHOWS THE COMPARISON OF LOANS & ADVANCES OF STATE BANK OF INDIA WITH OTHER PUBLIC AND PRIVATE SECTOR BANKS

Public Sector Banks: Syndicate Bank, Canara Bank, Corporation Bank

Private Sector Banks: HDFC Bank, ICICI Bank, UTI Bank

Criteria for selection: These banks are selected as they are the top performing banks and they have high loan lending capacity.

Variables: Loan amount of different banks.

TABLE

Amounts in Million

Name of the Bank	2021	2020	2019	2018	2017
	Amount	**Amount**	**Amount**	**Amount**	**Amount**
State Bank Of India	4167681.96	5425032.04	6319141.52	7567194.48	8675788.90
Syndicate Bank	640510.11	815322.69	904063.59	1067819.20	1236201.77
Canara Bank	1072380.40	1382194.00	1693346.30	2112682.92	2324898.18
Corporation Bank	391855.74	485121.60	632025.62	868504.04	1004690.20
HDFC Bank	634268.93	988830.47	1258305.93	1599826.65	1954200.29
ICICI Bank	2256160.82	2183108.49	1812055.97	2163659.01	2537276.57
UTI Bank	596611.44	815567.65	1043409.46	1424078.28	1697595.38

GRAPH

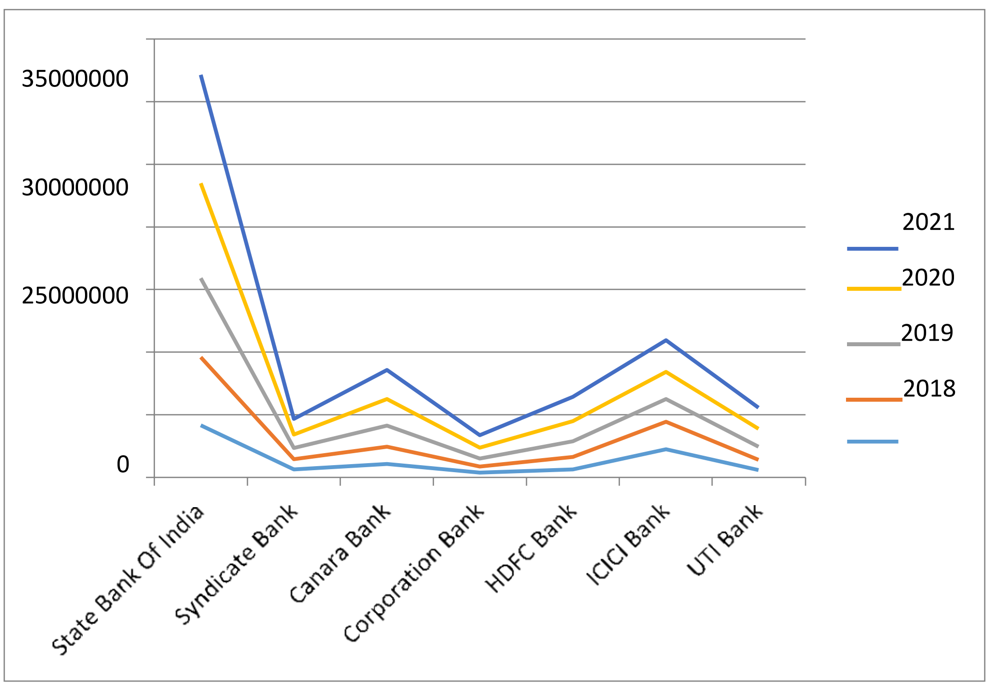


Figure 4.1: The loans and advances of SBI and other public and private sector banks

Interpretation:

Considering the above figure we can say that year on year the amount of advances lent by State Bank of India has increased which indicates that the bank's business is really commendable and the Credit Policy it has maintained is absolutely good. Whereas other banks do not have such good business SBI is ahead in terms of its business when compared to both Public Sector and Private Sector banks, this implies that SBI has incorporated sound business policies.

4.3 THE TABLE BELOW SHOWS THE CREDIT RECOVERYMANAGEMENT OF SBI

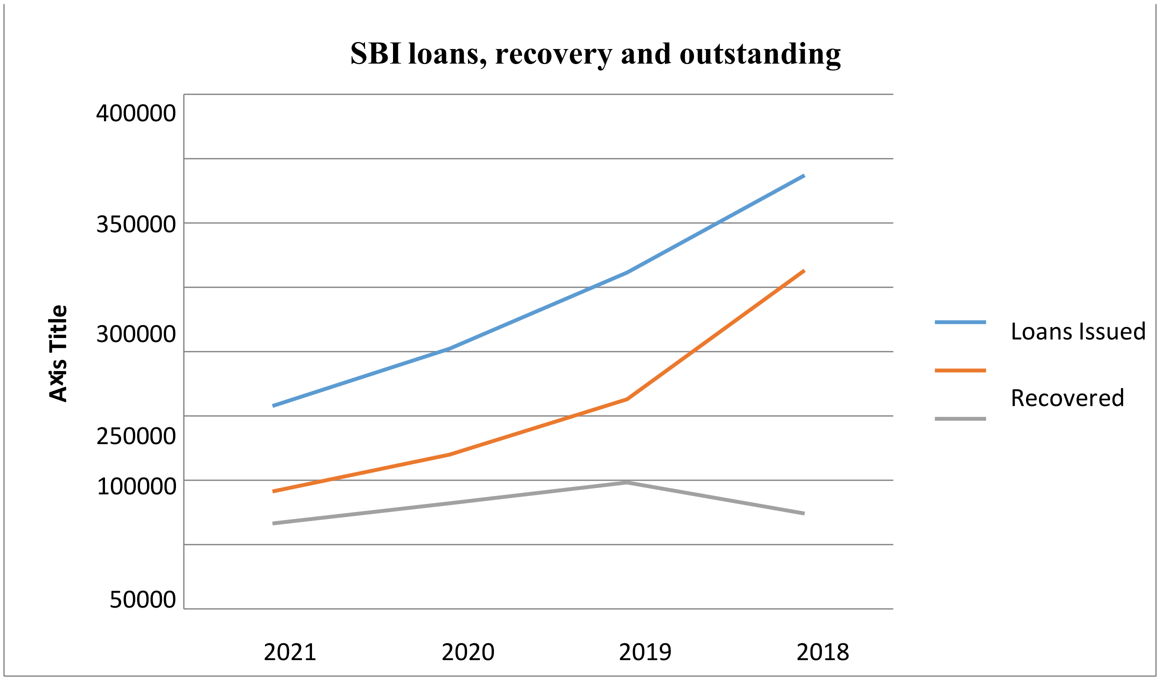
Variables: Loan issued amount, loan recovered amount and outstanding loan to be recovered of SBI.

Year	Loans Issued	Recovered	Outstanding
2021	157933.54	91601.4	66332.09
2020	202374.46	120210.43	82164.03
2019	261641.54	163264.32	98377.22
2018	337336.49	263264.32	74072.17

Interpretation:

From the figure we can say that till the year 2015 outstanding loans had increased up to 30% but due to the improved credit policy of SBI its outstanding rate decreased to 23% in the year 2014.

GRAPH:-


SBI loans, recovery and outstanding
400000
350000
300000
250000
100000
50000
Axis Title
2021
2020
2019
2018
Loans Issued
Recovered

CHAPTER 5
CONCLUSION

5.1 FINDINGS

Project findings reveal that SBI is sanctioning less Credit to agriculture, as compared with its key competitor's viz., Canara Bank, Corporation Bank, Syndicate Bank

1 .Recovery of Credit:

SBI recovery of Credit during the year 2020 is 84.2% Compared to other Banks SBI's recovery policy is very good, hence this reduces NPA

2 .Total Advances: As compared total advances of SBI is increased year by year.

State Bank of India is granting credit in all sectors in an Equated Monthly Installments so that anybody can borrow money easily

Project findings reveal that State Bank of India is lending more credit or sanctioning more loans as compared to other Banks.

State bank Of India is expanding its Credit in the following focus areas:

SBI Term Deposits

- **SBI Recurring Deposits**
  - *SBI Housing Loan*
- **SBI Car Loan**
  - *SBI Educational Loan*
- **SBI Personal Loan …etc.**

In case of indirect agriculture advances, SBI is granting 3.1% of Net Banks Credit, which is less as compared to Canara Bank, Syndicate Bank and Corporation Bank.

SBI"s direct agriculture advances as compared to other banks is 10.5% of the Net Bank's Credit, which shows that Bank has not lent enough credit to direct agriculture sector.

Credit risk management process of SBI used is very effective as compared with other banks.

5.2 RECOMMENDATIONS

- The Bank should keep on revising its Credit Policy which will help Bank's effort to correct the course of the policies

- The Chairman and Managing Director/Executive Director should make modifications to the procedural guidelines required for implementation of the Credit Policy as they may become necessary from time to time on account of organizational needs.

- Banks has to grant the loans for the establishment of business at a moderate rate of interest. Because of this, the people can repay the loan amount to bank regularly and promptly.

- Bank should not issue entire amount of loan to agriculture sector at a time, it should release the loan in installments. If the climatic conditions are good then they have to release remaining amount.

- SBI has to reduce the Interest Rate.

- SBI has to entertain indirect sectors of agriculture so that it can have more number of borrowers for the Bank.

5.3 CONCLUSION

Project undertaken has helped a lot in gaining knowledge of the “Credit Policy and Credit Risk Management” in Nationalized Bank with special reference to State Bank of India. Credit Policy and Credit Risk Policy of the Bank has become very vital in the smooth operation of the banking activities. Credit Policy of the Bank provides the framework to determine (a) whether or not to extend credit to a customer and (b) how much credit to extend. The Project work has certainly enriched the knowledge about the effective management of “Credit Policy” and “Credit Risk Management” in banking sector.

“Credit Policy” and “Credit Risk Management” is a vast subject and it is very difficult to cover all the aspects within a short period. However, every effort has been made to cover most of the important aspects, which have a direct bearing on improving the financial performance of Banking Industry

To sum up, it would not be out of way to mention here that the State Bank of India has given special inputs on “Credit Policy” and “Credit Risk Management”. In pursuance of the instructions and guidelines issued by the Reserve Bank of India, the State bank Of India is granting and expanding credit to all sectors.

The concerted efforts put in by the Management and Staff of State Bank of India has helped the Bank in achieving remarkable progress in almost all the important parameters.

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