Lending Operations and Risk Management

1. Define Term Loan
2. Why the private commercial banks discourage to consider long term loans
3. What is Working Capital Loan
4. Distinguish between working capital (W/C) and cash credit (CC) loan
6. Discuss the Significance/Importance of working capital for a firm.
7. Importance of working capital loan for running an agro-industrial project
   Or, Importance of working capital loan for running an industrial project
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determining the working capital needs of a firm.
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13. What do you mean by mortgage, pledge & hypothecation? [Dec-2013]
14. Distinguish between mortgage & pledge?
15. As a banker between pledge & hypothecation, which one you will prefer?
    Justify in favor of your argument. [Dec-2013]
16. Distinguish between mortgage, pledge & hypothecation
17. Distinguish between term credit and short-term credit
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    Or, Advantages of Short-Term Financing
19. What is SME Finance & Agricultural Finance
   Or, Define SME Credit with reference to BB’s given Definition [Dec-2013]
20. What is Credit Planning? [Dec-2013]
21. What factors are to be taken into consideration by a bank while making a
credit planning?
   Or, Discuss the important components those are to be taken in consideration
in formulating the lending operational policy of a bank. [Two Answer]
22. List down the minimum eligibility criteria to be fulfilled by borrower to obtain
loan
23. What is a Project?
24. List down the cost components of a Rice Mill project (capital cost).
25. What do you mean by a project & project appraisal?
26. During appraisal of a project loan proposal what factors does a banker take
into consideration? [Two Answers]
27. Mr. Abdul Ali, an enterprise of your branch area has applied for a loan of
Tk. 20.00 lac to establish a nursery project to your branch, Please write an
appraisal report of the loan proposal explaining the following points: 1) About the Applicant, 2) About the enterprise, 3) About the security (calculating maximum credit limit), 4) About the credit needs, 5) About the income and expenses i.e. profitability, 6) About the marketing, and 7) Recommended loan amount.

28. Difference between Lending Risk Analysis (LRA) and Credit Risk Grading (CRG)

29. The risks factors those can make an industry sick. How each factor accelerates the sickness?
   Or, Factor behind/responsible industrial sickness [Two Answers]

30. What do you mean by Asset-Liability Management (ALM)?

31. Do you agree that the absence of good ALM of a bank may lead to different crisis to jeopardize the image and soundness of the bank?

32. Prepare a typical balance sheet for a bank.

33. What do you know about ALCO?

34. Do you think each commercial bank should form ALCO?

35. Roles and responsibilities of Asset-Liability Management Committee (ALCO) of a Bank

36. Define Credit Risk Grading (CRG) [Dec-2013]

37. Function of Credit Risk Grading

38. What are the uses/ purposes/ importance of CRG? [Dec-2013]

39. Write down the expected minimum CRG requirements for extending credit. Explain with example. [Dec-2013]
   Or, Definition of Numbers of Credit Risk Grading

40. Different aspects of Credit Risk Grading (CRG) with grading points
   Or, Write down the components of CRG. [Dec-2013]
   Or, Number and Short Name of Grades Used In the CRG

41. Why core risk management is getting so much highlighted for proper financing of a bank

42. What is provisioning? Discuss the basis of determining the status of classified loans and advances. [Dec-2013]

43. Basis of determining the status of classified loans and advances. [No answer] [Dec-2013]

44. It is due to the increase of classified loans of the bank, that they are now facing liquidity problems and the borrower inter-bank call money at very high rate. Justify the viewpoint. [Dec-2013]

45. Distinguish between loan interest remission and loan write off. Between these two which one is beneficial for that Bank? Discuss. [Need modify]

46. List down the preconditions those required to be fulfilled by a borrower for availing write off consideration. [Need modify]

47. Distinguish between Money Market & Capital Market

48. Can increased call money rate influence the capital market? Elaborate with example.

49. What do you mean by SEC?

50. Functions of SEC
51. Do you think that SEC is performing its role properly by monitoring and controlling capital market of our country? Pass your comments.

52. What is Fund Flow

53. Importance/ Uses/ Purposes of Fund Flow Statement

54. Distinguish between Cash Flow and Fund Flow statement.

55. Write a sample of a cash flow statement of your bank

56. Write-Off and Re-scheduling [Need modify]

57. Purposes, cases, modes, and requirements of Rescheduling

58. What is loan pricing? [Dec-2013]

59. Discuss the components which are to be taken into account in pricing of loan [Dec-2013]
   Or, Components which are to be taken into account in pricing a loan program
   Or, Factors affecting the Loan Pricing

60. “Proper Pricing is most essential before launching a new loan product”. Discuss the statement with your view.

61. Factors affecting while assessing a loan proposal

62. In competitive market, which of the variable and fixed pricing as banker you would advocate? [Dec-2013]

63. Discuss different types of credit facilities that a commercial bank can provide to its clients. [Dec-2013]

64. Why credit-worthiness of an applicant is assessed? [Dec-2013]

65. Credit Facilities Available in Banks [Dec-2013]

66. Agricultural credit plays a very important role in economic development of the country with high GDP growth. Explain this mentioning the impact it keeps on the country’s overall GDP attainment.
   Or, Significance/ Impacts of Agricultural Credit in economic developments

67. Suppose against a loan proposal of your branch, the head office of the bank has sanctioned a loan of taka 1.00 (one) crore against a mixed farm (Agriculture, poultry, fishery and dairy farm). You were advised by head office to disburse the loan after due documentation. Please list down the names of the documents to be obtained from the borrower before disbursement of the loan.

68. A project loan is treated as a term loan. Discuss why. Discuss the risks you anticipate in such financing.

69. Agricultural Finance: Definition, Nature and Scope
1. **Define Term Loan**

Term loan refers to asset based loan payable in a fixed number of equal installments over the term of the loan, usually for 1 to 5 years. Term loans are generally provided as working capital for acquiring income producing assets like machinery, equipment, inventory that generate the cash flows for repayment of the loan. Banks have term-loan programs that can offer small businesses the cash they need to operate from month to month.

2. **Why the private commercial banks discourage to consider long term loans**

Most of the time the private commercial banks discourage to finance the long term loans due to some relative risky and problems. These are:

1) Lower Rates: Long-term loan normally have lower interest rates than short-term credits.
2) Slow Cash Inflow: A long-term debt obligation also prevents the faster cash inflow.
3) Risk Involvement: Generally, the level of the interest rate is depends upon the risk involved with making the loan. In case of default, long-term loan includes a greater span of time.
4) Credit turn-over loss: The long-term loan will be paid over a loan period. So the lender get recovered the amount by a long period as the lender has missed the rapid credit turn over.
5) Long term debt is often costly to service
6) The cost of capital is higher in case of long term debt

3. **What is Working Capital Loan**

A working capital loan is a loan used by an organization to cover day-to-day operational expenses. For example, a company is unable to generate the revenue to meet expenses incurred by day-to-day operations. In such case, company may apply for a working capital loan. A working capital loan covers only expenses incurred by existing capital, human resources, etc.

4. **Distinguish between working capital (W/C) and cash credit (CC) loan**

<table>
<thead>
<tr>
<th>Sl.</th>
<th>Working Capital Loan</th>
<th>Cash Credit Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>It is taken for a certain period like 5 years</td>
<td>It is for one year and need to renewed every year</td>
</tr>
<tr>
<td>2</td>
<td>Repayment is made by Equal monthly installment basis</td>
<td>Repayment is made by only interest or any sum of amount</td>
</tr>
<tr>
<td>3</td>
<td>If the fund is required for purchase of capital assets, then the bank gives the working capital loan</td>
<td>If the fund is required for meeting the working capital requirement, then the bank gives the CC limit</td>
</tr>
<tr>
<td>4</td>
<td>The loan amount may pay at ones and repayment is made by monthly basis</td>
<td>The payment and repayment is made by day basis</td>
</tr>
<tr>
<td>5</td>
<td>It may be secured by personal guarantee or mortgage of any fixed asset</td>
<td>It may be hypothecated and pledged by stock and receivables</td>
</tr>
</tbody>
</table>
5. **Define Working Capital.**

Working capital signifies money required for day-to-day operations of an organization. No business can run without the provision of adequate working capital.

It has two types:
1) Gross working capital that refers to as working capital means the total current assets;
2) Net working capital that the differences between current assets and current liabilities.

6. **Discuss the Significance/Importance of working capital for a firm.**

Working capital is the life blood for running an organization. It is very essential to maintain smooth running of a business. The main significance or importances of working capital are as follows:

1. **Supports as initial partial capital:** The working capital can helps to adequate liquidity to developing a business.
2. **Strengthen the Solvency:** It helps to operate the smooth flow of production and business without any financial problem for making the payment of short-term liabilities.
3. **Enhance the project growth:** Sufficient working capital enables to make prompt payments and helps in creating goodwill.
4. **Easy obtaining finance:** A firm having adequate working capital, high solvency and good credit rating can arrange loans from banks in easy and favorable terms.
5. **Regular supply of raw material:** Quick payment of credit purchase of raw materials ensures the regular supply of raw materials from suppliers.
6. **Smooth business operation:** It maintains a good shape in entire developments for a developing project.
7. **Ability to face crisis:** In crisis to emergency needs, it enables to meet working capital requirement for the project.

7. **Importance of working capital loan for running an agro-industrial project**

Or, **Importance of working capital loan for running an industrial project**

Or, **Advantages of Working Capital Loan**

Working capital is the life blood for running an agro/agro/industrial project. It is very essential to maintain smooth running of a business. The main advantages or importance of working capital are as follows:

1. **Supports as initial partial capital:** The working capital loan can helps to adequate liquidity to developing agro/industrial project.
2. **Strengthen the Solvency:** It helps to operate the smooth flow of production and business without any financial problem for making the payment of short-term liabilities.
3. **Enhance the project growth:** Sufficient working capital enables to make prompt payments and helps in creating goodwill.
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7. **Ability to face crisis:** In crisis to emergency needs, it enables to meet working capital requirement for the project.

8. **How would you assess the working capital requirement of poultry industry?**

   Or, **Assessments/ forecast of working capital requirements**
   The shortage or surplus of working capital, both are harmful for the organization especially for poultry industry. So it is important for the assessments of working capital. The following considerations which is necessary for assessing the working capital requirement for a poultry industry:
   1. The information of estimated production of poultry business
   2. The value of raw material, labor and overheads for unit or sum of production
   3. Time lag in store of raw materials of poultry product
   4. Time lag in production process of poultry product
   5. Stag in the warehouse of finished product
   6. Delivery process of the poultry product
   7. Collection period from debtors
   8. Credit allowed by suppliers

9. **Explain the factors affecting working capital requirement.** (Need Details)

   Or, **Explain the factors determining the need for working capital.**

   Or, **Describe in brief the various factors which are taken into account in determining the working capital needs of a firm.**

   A firm should have neither low nor high working capital. Low working capital involves more risk and more returns, high working capital involves less risk and less returns. The factors determining the needs for of working capital are below:
   1. Nature of the business
   2. Size of the business
   3. Length of period of manufacture
   4. Methods of purchase and sale of commodities
   5. Converting working assets into cash
   6. Seasonal variation in business
   7. Risk in business
   8. Size of labor force
   9. Price level changes
   10. Rate of turnover
   11. State of business activity
   12. Business policy
10. **Explain different sources of financing working capital.**
The sources of finance for financing working capital may be four categories. They are:

1. Trade Credit: It is the primary source that trade credit makes up the important source for a sum of the total working capital.
2. Bank Credit: The banks determine the maximum credit based on the margin requirements of the security. The forms of bank credit are Loan and overdraft arrangement, cash credit, bills purchase and bills discounted.
3. Non-bank Short Term Borrowing: These types of loan are found from relatives, friends, head office or project office etc.
4. Long-term Sources: It comprises equity capital and long-term borrowings.

11. **Define permanent working capital and variable working capital.**

Permanent Working Capital is to carry on business a certain minimum level of working capital is necessary on a continuous and uninterrupted basis. For all practical purposes, this requirement will have to be met permanently as with other fixed assets. This requirement is referred to as permanent working capital.

Temporary Working Capital is refers to any amount over and above the permanent level of working capital is temporary, fluctuating or variable working capital. This portion of the required working capital is needed to meet fluctuations in demand consequent upon changes in production and sales as result of seasonal changes.

12. **Explain the difference between variable working capital and permanent working capital.**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Permanent Working Capital</th>
<th>Temporary Working Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Required level of amount</td>
<td>A certain minimum level of working capital is necessary to carry the business</td>
<td>Any amount over and above the permanent level of working capital is needed</td>
</tr>
<tr>
<td>2) Level of necessity</td>
<td>It is necessary on a continuous and uninterrupted basis</td>
<td>Temporarily required in case of increase of production and sales</td>
</tr>
<tr>
<td>3) Pattern of necessity</td>
<td>This requirement will have to be met permanently</td>
<td>The necessity in on fluctuating or variable position</td>
</tr>
<tr>
<td>4) Nature of working capital</td>
<td>The working capital cost and investment is constant</td>
<td>The working capital cost and investment is variable</td>
</tr>
<tr>
<td>5) Outcome level of firm</td>
<td>It make the minimum outcome as well as growth of the firm</td>
<td>It make a extra ordinary production outcome of the firm</td>
</tr>
</tbody>
</table>

13. **What do you mean by mortgage, pledge & hypothecation? Dec-2013**

**Mortgage:** Mortgage is a type of charge related to immovable property. Immovable property shall include land, benefits to arise out of land and things attached to the earth or permanently fastened to anything attached to the earth. It does not include standing timber, growing crops or grass.
**Pledge:** Pledge arises when the lender (pledgee) takes possession of either the goods or bearer securities for extending a credit facility to the borrower (pledgor). The pledgee can retain the possession of the goods until the pledgor repays the entire debt amount and in case of a default, the pledgee has the right to sell the goods in his possession and adjust its proceeds towards the amount due.(example Jewel loan).

**Hypothecation:** Hypothecation is a way of creating a charge against the security of movable assets, which is much similar to pledge.(example purchasing a bike from bank loan). The possession and the ownership remain with the borrower. Since the possession remains with the borrower, he may, at any time either create a subsequent charge by way of pledge over same goods or may sell them. In such cases, the rights of the pledgee usually super cedes the rights of the person in whose favor the goods were hypothecated, if the fact of existence of such a charge is not known to the subsequent pledgee.

14. **Distinguish between mortgage & pledge?**
The differences between a mortgage and a pledge:

<table>
<thead>
<tr>
<th>Sl.</th>
<th>Particulars</th>
<th>Mortgage</th>
<th>Pledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Property type in Security</td>
<td>Mortgaged is an immovable property</td>
<td>Pledged is a movable property</td>
</tr>
<tr>
<td>2</td>
<td>Property ownership</td>
<td>The property is transferred to lender</td>
<td>The property remains to pledgor</td>
</tr>
<tr>
<td>3</td>
<td>Property custody</td>
<td>Possession of property will be with borrower</td>
<td>Goods delivered by the pledgor will be in lender</td>
</tr>
<tr>
<td>4</td>
<td>Legal authority to sell property</td>
<td>Mortgagee can sell only with the permission of the Court</td>
<td>Lender can sell without the intervention of the Court</td>
</tr>
<tr>
<td>5</td>
<td>Rights to foreclosure</td>
<td>A mortgagee has the right of foreclosure that restrict the borrower from taking back the property under certain circumstances</td>
<td>A pledgee does not have the right of foreclosure that cannot restrict the pledgor from taking back the property</td>
</tr>
</tbody>
</table>

15. **As a banker between pledge & hypothecation, which one you will prefer? Justify in favor of your argument. Dec-2013**
*(Need to explain)*

Hypothecation is a form of security in which the borrower offers assets owned by him like stocks, bonds, other movable assets as collateral security for loan without transferring title to the lender. However, the lender gets a right to sell the property in the event of default made by the borrower.

Pledge is also a form of security to assure that a person will repay a debt under contract. In Pledge borrower temporarily gives possession of the property to the lender that also gets a right to sell the property in the case of default the loan.

For more info, please contact to 01712 043880
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17. **Distinguish between term credit and short-term credit**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Term Credit</th>
<th>Short Term Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Definition</td>
<td>A form of finance that have a small, mid or long repayment schedule</td>
<td>A form of finance that have a short repayment schedule</td>
</tr>
<tr>
<td>2. Maturity period</td>
<td>1 to 5 years, in some cases it may be 20 years</td>
<td>1 or less than 1 year</td>
</tr>
<tr>
<td>3. Competitive interest rate</td>
<td>competitively marginal or low rate</td>
<td>competitively high rate</td>
</tr>
<tr>
<td>4. Lending complexity</td>
<td>Some complex to lending except short-term lending</td>
<td>Easy to lending</td>
</tr>
<tr>
<td>5. Profitability</td>
<td>Marginal profit</td>
<td>High margin of profit</td>
</tr>
<tr>
<td>6. Risk</td>
<td>Marginal or high risk</td>
<td>Low risk</td>
</tr>
<tr>
<td>7. Loan limit</td>
<td>Loan limit is more</td>
<td>Small Loan limit</td>
</tr>
</tbody>
</table>

18. **Why do the private commercial banks prefer short term lending**

Or, **Advantages of Short-Term Financing**

8. **Easier to provide:** Banks can provide short-term credit more easily within the minimum functionality than long-term credit.

9. **Higher interest:** Banks may impose the higher interest rate due to small amount of credit with the minimum or security less financing.

10. **Rapid turn-over of capital:** The capital investment is turning over rapidly and it make chance to further investment

11. **Minimum cost of capital:** Whether, the short-term credit makes the rapid turn-over of capital investment, thus it may reduce the cost of capital.
12. **Minimum risks**: Due to minimum time frame, the repayment of loan may cover in earlier. Thus, the risk is lesser than the long term credit.

13. **Easy control over the customers**: Banks can overlook more easily to the short-term borrowing customers than the long-term borrower.

14. **Flexibility to lend**: It is more flexible in the sense that the banks lends as the borrowers are needed and repay then in due time.

15. **Minimum complexity**: The maintenance and supports of further credit procedures is simple than long-term finance.

16. **Fund availability**: In many cases, commercial banks prefer to maximize the fund availability particularly small enterprises.

19. **What is SME Finance & Agricultural Finance**

Or, Define SME Credit with reference to BB’s given Definition Dec-2013

**SME Financing**: SME finance is the funding of small and medium sized enterprises, and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and priced. Capital is supplied through the business finance market in the form of bank loans and overdrafts; leasing and hire-purchase arrangements; equity/corporate bond issues; venture capital or private equity; and asset-based finance such as factoring and invoice discounting.

SMEs are vital for economic growth and development in both industrialized and developing countries, by playing a key role in creating new jobs. Small businesses are particularly important for bringing innovative products or techniques to the market.

[According to Bangladesh Bank (SMESPD Circular No.1 dated 19 June, 2011), the cottage, micro & SME is newly defined the industry/enterprise:

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Criteria</th>
<th>Fixed assets excluding land &amp; building (Tk. in crore)</th>
<th>No. of manpower</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Medium</td>
<td>Small</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10-30</td>
<td>0.5-10</td>
<td>0.05-0.5</td>
</tr>
<tr>
<td>Trade</td>
<td>1-15</td>
<td>0.05-1</td>
<td>&lt;0.05</td>
</tr>
<tr>
<td>Service</td>
<td>1-15</td>
<td>0.05-1</td>
<td>&lt;0.05</td>
</tr>
</tbody>
</table>

| Cottage Industry | <0.05 | <10 |

An industry or enterprise can be treated as that category one following a benchmark but the same can fall under higher category if another benchmark is considered. In that case it will be treated as higher category industry.

A woman, who owns a private firm or she holds minimum 51% stake in firm run jointly or registered, will be treated as women entrepreneur.]

**Agricultural Finance**: Agricultural credit is a financial term that refers to loans and other types of credit extended for agricultural purposes. Agricultural credit systems promote the expansion and continued survival of farm and livestock
operations, covering the entire agricultural value chain - input supply, production and distribution, wholesaling, processing and marketing.

Banks lend to farmers for a variety of purposes, including (1) short-term credit to cover operating expenses; (2) intermediate credit for investment in farm equipment and real estate improvements; (3) long-term credit for acquisition of farm real estate and construction financing; and (4) debt repayment and refinancing.

20. **What is Credit Planning? Dec-2013**

A credit planning is to set out procedures for defining and measuring the credit-risk exposure within the Group and to assess the risk of losses associated with credit extended to customers, financial investments and counterparty risks with respect to derivative instruments. The main aspects of a credit planning are- 1) the terms and conditions on credit, 2) customer qualification criteria, 3) procedure for making collections, and 4) steps to be taken in case of customer delinquency.

21. **What factors are to be taken into consideration by a bank while making a credit planning?**

Or, **Discuss the important components those are to be taken in consideration in formulating the lending operational policy of a bank.**

[Two Answer]

**Answer One**

An effective Credit planning should include the following considerations:

- Objectives of the credit function
- Opening procedures and obtaining information for new accounts
- Assessing & evaluating the proposals
- Terms and conditions
- Authority levels and responsibilities
- Invoicing procedures
- Monitoring borrowing and paying behavior of customer
- Procedure relating to complaints and disputes
- Targets, benchmarks, and deadlines for the credit function
- Defining & collecting of dues, overdues and bad debts

The credit planning should be considered by internal and external factors and should be reviewed on an ongoing process. These are:

- Customer’s buying patterns, needs and requests
- Type of industry
- Competitors’ offers
- Type of products or services provided to customers
- Production and warehouse management
- Distribution systems
- Credit terms from trade suppliers and the bank’s overdraft limits
- Costs of third parties involved, such as factoring, debt collection agencies, etc.

**Answer Two**

The components that should consider when formulating a lending policy that should influence to extend credit are discussed below:
A. Terms of Sale
The conditions under which a firm sells its goods & services-
1. The period for which credit is granted: The factors that influence the credit period are-
   a) Predictability
   b) Consumer Demand
   c) Cost, profitability and standardization
   d) Credit risk
   e) Size of the account
   f) Completion
2. The type of credit instrument
3. Credit Function
   a) Running a credit department
   b) Chose to contract all or part of credit to a factor
   c) Manage internal credit operations are insured against default

B. Credit analysis
Refers to the process of deciding, it usually involves two steps:
1. Relevant information
   a) financial statements
   b) credit agency
   c) banks credit
   d) market good will
2. Credit Worthiness
   a) Character
   b) Capacity
   c) Capital
   d) Collateral
3. Credit scoring: The process of quantifying the probability of default when granting consumer credit

C. Collection Policy
Collection policy is the final factor in credit policy. Collection policy involves monitory receivables to spot trouble and obtaining payment on past due accounts.

22. List down the minimum eligibility criteria to be fulfilled by borrower to obtain loan
1. Credit-worthiness: These will be treated on behalf of applicant’s credit history, capacity to repay, collateral value as eligibility criteria.
2. Business and Credit history: The eligibility may be judged by business track records and also qualifying for the different types of credit history like type of credit facility, credit limit, repayment records, etc.
3. Working capital: The present working capital may be considered that can be thought of as cash at hand and bank.
4. Collateral: Collateral securities which are assets will be evaluated as secured assets and pledge or hypothecation of inventory.
5. Keen money management skills: This includes a solid cash flow, the ability to live, and skills of keeping accurate and timely financial records.
6. **Earning power:** The earnings of borrower to be given out as loan are some of the determining factors in granting the loans.

7. **Ability to repay:** The borrower should have to ability to repay the loans from his business and personal income.

8. **Experience and character:** The borrower should have experience in business to run that should have business skills and managerial experience.

23. **What is a Project?**
A project is refers to that a temporary group of activity designed to produce a unique product, service or a result.
A project has defined by following aspects:
1) It is defined a beginning-end schedule and approach;
2) Uses the resources to allocated works;
3) Achieves the specific goals within an organized approach;
4) Usually involves a team of workforce.

24. **List down the cost components of a Rice Mill project (capital cost)**

1. Cost of land and site development
   - Cost Of Land
   - Cost Of Leveling/Development
   - Cost Of Approach Road
   - Cost Of Compound Wall

2. Cost of Building & Civil Work
   - Factory building
   - Raw material godown
   - Finished goods storage & packing
   - Administrative building
   - Conference hall
   - Generator room & workshop
   - Watchmen Cabin
   - Electricity Chamber

3. Cost of plant & machinery
   - Milling section
   - Paddy bar-boiling/steaming plant
   - Steam boiler
   - Excise Duty & Other Taxes

4. Others fixed assets costs
   - Office furniture & fixtures
   - Computer
   - Electrification & fire fighting equipments
   - Air compressor
   - Vehicle (truck)
   - Other machineries tools & tackles

5. Preoperative Expenses

6. Margin Money For Working Capital
   - Raw material
   - Electricity charges
25. **What do you mean by a project & project appraisal?**

A project is temporary in that it has a defined beginning and end in time, and therefore defined scope and resources that are ways of organizing resource. It is a group of individuals who are assembled to perform different tasks on a common set of objectives for a defined period of time.

A Project appraisal is refers to the process of assessing, in a structured way, the case for proceeding with a project that is the effort of calculating a project’s viability. The processes of a project appraisal are- Initial assessment, define problem and long-list, consult and short-list, develop options, compare and select project.

26. **During appraisal of a project loan proposal what factors does a banker take into consideration?**

[Two Answers]

**Answer One**

The most important factors to be considered during appraisal of project loan proposal are as follows:

1. **Professional profile:** Evaluate the ability to manage the project that must have the experience, skills, determination and self-confidence necessary to successfully carry out the project.

2. **Project's viability:** It should have a business plan that is clear, structured and short, but also covers all the elements of business. It needs to present few years of financial projections as well as an analysis of market size, market potential and positioning.

3. **Financial strength:** It will have to know the personal and business net worth, so bank can judge the ability to meet financial obligations. Bank will also look at past credit history to gauge the future.

4. **Collateral:** Banks often also look for assets to secure a loan. The collateral ensures the safely lending to the customer in case of bad-debt arises in future.

**Answer Two**

1. **Borrower Analysis:** Share holding, reputation, education, experience – success history, net worth, age etc.

2. **Industry Analysis:** Position, prospect, Risk factors, share in the industry, strength, weakness etc.

3. **Supplier/Buyer Risk Analysis**

4. **Demand Supply position**

5. **Technical/Infrastructural feasibilities**

6. **Management Teams Competence**

7. **Seasonality of demand**

8. **Debt-Equity Ratio**

9. **Historical financial analysis Earning, cash flow, leverage, profitability, etc.**
10. Projected Financials Ability to debt repayment, debt service coverage ratio
11. Allied/ sister concern involved, other business
13. Loan structuring: Amount, tenor, interest rate, etc.
14. Security: Guarantee/s, Un-dated/ Post-dated cheque with IGPA, collateral security, etc.
15. Adherence to Bank’s credit policy & guidelines
16. Mitigating Factors i.e. risk factors
17. Environmental factor.
18. Employment generation and contribution to the national economy.

27. Mr. Abdul Ali, and enterprise of your branch area has applied for a loan of Tk. 20.00 lac to establish a nursery project to your branch, Please write an appraisal report of the loan proposal explaining the following points: 1) About the Applicant, 2) About the enterprise, 3) About the security (calculating maximum credit limit), 4) About the credit needs, 5) About the income and expenses i.e. profitability, 6) About the marketing, and 7) Recommended loan amount.

1. About the applicant:
   Mr. Abdul Ali, proprietor of M/S Gomoti Plantations is well experienced having more than 18 years of experience in this line of business with strong market reputation.
   - Ownership Status : Proprietor
   - % of share holding : 100%
   - Personal Net worth : 150.00 lac
   - Education : Graduate
   - Age : 52 years

2. About the enterprise:
   - Nature of Business : Agro based production in developing the plantations and livestock
   - Legal Status : Proprietorship
   - Year of Estd. : 2003
   - Business Address : South Keranigonj, Dhaka

3. About the security (calculating maximum credit limit):
   - 1 (One) Un-dated cheque covering the entire limit
   - Hypothecation over the stocks duly insured covering the risk
   - Registered Mortgage with IGPA of 3.00 katha of land at Dist: Dhaka, P/S: Keranigonj, Mouza: Keranigonj valued at Tk.40.00 lac (MV) and Tk.30.00 lac (FSV).

4. About the credit needs:
   - Nature of Facility : Term Loan
   - Amount of Limit : Tk. 20.00 lac only
   - Purpose : To meet up working capital requirement in their business
   - Rate of Interest : 18% p.a.
   - Mode of repayment: Equal monthly Installment
   - CIB Status : STD dt. 15/10/2013
5. About the income and expense i.e. profitability:

Financials in 2012:
- Sales/Revenue: 310.00
- Net Profit: 22.70
- Total Assets: 100.68
- Total Liabilities/Debt: 20.58

Ratio analysis:
- Debt-Equity Ratio: 0.60
- Debt-Service Coverage Ratio: 10.08
- Current Ratio: 1.21
- Return on Asset: 14.34
- Return on Equity: 22.99
- Net Profit Margin: 8.63

6. About the marketing:

7. Recommendation:

Considering the above facts & analysis, we recommend for approval of the proposed credit facility as Term Loan of Tk. 20.00 lac for the period of 36 months.

28. Difference between Lending Risk Analysis (LRA) and Credit Risk Grading (CRG)

Lending Risk Analysis (LRA) is a technique by which the loan risk is calculated by Credit department of a bank that need to analyze it when loan application is above 1 crore. The ranking of it is total 140, 120 is for total business risk and another 20 is for total security risk.

In LRA, following aspects are analyzed: supplies risk, sales risk, performance risk, resilience risk, management ability, level of managerial teamwork, management competent risk, management integrity risk, security control risk, and security covers risk.

Credit Risk Grading (CRG) is a collective definition based on the pre-specified scale and reflects the underlying credit risk for a given exposure. It deploys a number/ symbol as a primary summary indicator of risks associated with a credit exposure.

The proposed CRG scale consists of 8 categories are as: superior, good, acceptable, marginal, special mention, sub-standard, doubtful, and bad & loss.

29. The risks factors those can make an industry sick. How each factor accelerates the sickness?

Or, Factor behind/ responsible industrial sickness

[Two Answers]

Answer One
The two categories factors are listed behind that accelerate the industry sickness are discussed below:

Internal risk factors:
1. Lack of Experience
2. Poor Management
3. Wrong feasibility / Uneconomic Plant size
4. Lack of working Capital
5. Obsolete technology
6. Faulty employee appointment
7. Non-cooperation among owners and employees
8. Marketing Problem
9. Dependence on single financial source
10. Irregular wage payment
11. Poor product quality

**External risk factors:**
1. Lack of working Capital
2. Political Unrest
3. Smuggling
4. Trade liberalization
5. Poor infrastructure
6. Global price fluctuate
7. Problems in loan disbursement (already sanctioned)
8. Bank control over machinery purchase
9. Natural calamities
10. Duty on raw materials / customs problems
11. Non-availability of raw materials
12. Lack of modern technology
13. Long project implementation period
14. Lack of demand for the product
15. High loan interest

**Answer Two**

**A. Internal risks factors**
1. Lack of Finance: The weak equity, inefficient working capital, absence of costing & pricing and budgeting, and so on will accelerate the industry sick.
2. Inefficient Production Policies: This includes wrong selection of site is related to production, lack of quality control and standard, research & development, etc.
3. Marketing factors: Inefficient planning and product mix, weak market research and sales promotions are force to industry sickness.
4. Improper Staffing: It includes bad wages and salary administration, bad labor relation, conflicts among the employees and workers.
5. Ineffective Corporate Management: It includes improper corporate planning, lack of coordination, control and integrity in top management, etc.

**B. External risks factors**
1. Personnel Constraint: Unskilled labor, wages disparity, general labor invested in the area will accelerate behind make a sickness.
2. Marketing Issues: The sickness arrives due to liberal licensing policies, changes in global marketing, excessive tax policies by govt. and market recession.
3. Production problem: This arises due to shortage of raw material and its high prices, shortage of power, import-export restrictions.
4. Financial Issues: The sickness arises due to credit restraints policy, delay in loan disbursement, unfavorable investments, etc.

For more info, please contact to 01712 043880
30. **What do you mean by Asset-Liability Management (ALM)?**
Asset liability management (ALM) is the administration of policies and procedures that refers to financial risks considering interest rate, exchange rate and other factors that can affects to company’s liquidity. It manages the risks to acceptable level by monitoring and sets the competitive prices between assets and liabilities of a company.
The ALM functions extend to liquidity risk management, management of market risk, trading risk management, funding and capital planning and profit planning and growth projection.

31. **Do you agree that the absence of good ALM of a bank may lead to different crisis to jeopardize the image and soundness of the bank?**
Asset Liability Management (AML) is the most important aspect to maintain the bank’s image and soundness. It manages the Balance Sheet Risk, especially for managing of liquidity risk and interest rate risk.

A bank would have managed a major portion of its risks by having in place a proper ALM policy attending to its interest rate risk and liquidity risk. These two risks when managed properly lead to enhanced profitability and adequate liquidity. It should be used strategically for deciding the pricing and structure of assets and liabilities in such a way that profitability, liquidity and credit exposure is maintained. Hence one cannot neglect credit risk in the ALM process.
So, it is essential to form “Asset Liability Management Committee (ALCO)” with the senior management to control the crises to jeopardize the bank’s image and soundness.
32. Prepare a typical balance sheet for a bank

<table>
<thead>
<tr>
<th>Assets</th>
<th>Policy limits as a % of Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and leases</td>
<td>70%</td>
</tr>
<tr>
<td>Residential mortgage</td>
<td>30%</td>
</tr>
<tr>
<td>Commercial loans</td>
<td>20%</td>
</tr>
<tr>
<td>Personal loans</td>
<td>15%</td>
</tr>
<tr>
<td>Finance leases</td>
<td>5%</td>
</tr>
<tr>
<td>Financial investments</td>
<td>15%</td>
</tr>
<tr>
<td>Other investments</td>
<td>5%</td>
</tr>
<tr>
<td>Inventories</td>
<td>1%</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>3%</td>
</tr>
<tr>
<td>Cash and cash equivalent</td>
<td>4%</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic interest bearing deposits</td>
<td>75%</td>
</tr>
<tr>
<td>Term deposit</td>
<td>42%</td>
</tr>
<tr>
<td>Demand deposit</td>
<td>25%</td>
</tr>
<tr>
<td>Brokered deposits</td>
<td>8%</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>4%</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>12%</td>
</tr>
<tr>
<td>Non-Interest bearing liabilities</td>
<td>5%</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>2%</td>
</tr>
<tr>
<td>Trade and other payable</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

33. What do you know about ALCO?
Asset-Liability Management Committee (ALCO) is a risk-management committee in a financial institution that generally comprises the senior-management levels of the institution. ALCO are to look after the financial market activities, manage liquidity and interest rate risk, understand the market position and competition etc.

34. Do you think each commercial bank should form ALCO?
Asset-Liability Management Committee (ALCO) is the core unit of a financial institution. So it is the basic need to form an ALCO to balancing the Asset-Liability Management.
The ALCO will set a standard limits on borrowing in the short-term markets and lending long-term instruments that controls over the financial risks and external events that may affect the bank's asset-liabilities position. It manages the risks to acceptable level by monitoring and sets the competitive prices between assets and liabilities to maintain the liquidity position of the company. Without an ALCO, a commercial bank may lose all positive financial opportunities and the bank must be faced by different types risk as like as financial crisis. So that it shout to be formed a ALCO for each commercial bank to manage the vulnerable financial position.
35. **Roles and responsibilities of Asset-Liability Management Committee (ALCO) of a Bank**

   1. To assume overall responsibilities of Money Market activities
   2. To manage liquidity and interest rate risk
   3. To comply with the regulations of Bangladesh Bank in respect of statutory obligations as well as thorough understanding of the risk elements of business
   4. To understand the market position and competition
   5. To provide inputs to the Treasurer regarding market views and updates the balance sheet movement
   6. Deal with the dealer’s authorized limit

36. **Define Credit Risk Grading (CRG) Dec-2013**

   **Credit Risk Grading (CRG)** is a collective definition based on the pre-specified scale and reflects the underlying credit-risk for a given exposure. CRG deploys a number/ symbol as a primary summary indicator of risks associated with a credit exposure. Credit Risk Grading is the basic module for developing a Credit Risk Management system.

37. **Function of Credit Risk Grading**

   Well-managed credit risk grading systems promote bank safety and soundness by facilitating informed decision-making. Grading systems measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels. The process also allows bank management to manage risk to optimize returns.

38. **What is the uses/ purpose/ importance of CRG? Dec-2013**

   The Credit Risk Grading matrix allows application of uniform standards to credits to ensure a common standardized approach to assess the quality of an individual obligor and the credit portfolio as a whole. It measure credit risk and differentiate individual credits and groups of credits by the risk they pose. This allows bank management and examiners to monitor changes and trends in risk levels.

   As evident, the CRG outputs would be relevant for credit selection, wherein either a borrower or a particular exposure/facility is rated. The other decisions would be related to pricing (credit spread) and specific features of the credit facility. Risk grading would also be relevant for surveillance and monitoring, internal MIS and assessing the aggregate risk profile.
39. Write down the expected minimum CRG requirements for extending credit. Explain with example, Dec-2013

**Or, Definition of Numbers of Credit Risk Grading**

A clear definition of the different categories of Credit Risk Grading is given as follows:

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Grade</th>
<th>Definition</th>
</tr>
</thead>
</table>
| Superior – Low Risk       | 1     | • Facilities are fully secured by cash deposits  
• Government bonds or a counter guarantee from a top tier international bank.  
• All security documentation should be in place. |
| Good – Satisfactory Risk  | 2     | • The repayment capacity of the borrower is strong.  
• The borrower should have excellent liquidity and low leverage.  
• The company should demonstrate consistently strong earnings and cash flow.  
• All security documentation should be in place.  
Aggregate Score of 95 or greater based on the Risk Grade Scorecard. |
| Acceptable – Fair Risk    | 3     | • Adequate financial condition though may not be able to sustain any major or continued setbacks.  
• These borrowers are not as strong as Grade 2 borrowers, but should still demonstrate consistent earnings, cash flow and have a good track record  
• An Aggregate Score of 75-94 based on the Risk Grade Scorecard. |
| Marginal – Watch list     | 4     | • Grade 4 assets warrant greater attention due to conditions affecting the borrower, the industry or the economic environment.  
• These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings.  
• Aggregate Score of 65-74 based on the Risk Grade Scorecard. |
| Special Mention           | 5     | • Grade 5 assets have potential weaknesses that deserve management’s close attention.  
• If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower  
• An Aggregate Score of 55-64 based on the Risk Grade Scorecard. |
| Substandard               | 6     | • Financial condition is weak and capacity or inclination to repay is in doubt  
• Loans should be downgraded to 6 if loan payments remain past due for 60-90 days  
• Not yet considered non-performing as the correction of the deficiencies may result in an improved condition, and interest can still be taken into profits. |
An Aggregate Score of 45-54 based on the Risk Grade Scorecard.

- Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.
- However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Loss.
- The adequacy of provisions must be reviewed at least quarterly on all non-performing loans, and the bank should pursue legal options to enforce security to obtain repayment or negotiate an appropriate loan rescheduling.
- In all cases, the requirements of Bangladesh Bank in CIB reporting, loan rescheduling and provisioning must be followed.
- An Aggregate Score of 35-44 based on the Risk Grade Scorecard

<table>
<thead>
<tr>
<th>Doubtful and Bad (non-performing)</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>An Aggregate Score of 35-44 based on the Risk Grade Scorecard</td>
<td></td>
</tr>
</tbody>
</table>

Loss (non-performing)

- Assets graded 8 are long outstanding with no progress in obtaining repayment (in excess of 180 days past due) or in the late stages of wind up/liquidation.
- The prospect of recovery is poor and legal options have been pursued.
- The proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted.
- An Aggregate Score of 35 or less based on the Risk Grade Scorecard

<table>
<thead>
<tr>
<th>Loss (non-performing)</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>An Aggregate Score of 35 or less based on the Risk Grade Scorecard</td>
<td></td>
</tr>
</tbody>
</table>

40. **Different aspects of Credit Risk Grading (CRG) with grading points**
Or, **Write down the components of CRG. Dec-2013**
Or, **Number and Short Name of Grades Used In the CRG**

| Number and Short Name of Grades used in the CRG: |

<table>
<thead>
<tr>
<th>Grading</th>
<th>Short Name</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior</td>
<td>SUP</td>
<td>1</td>
</tr>
<tr>
<td>Good</td>
<td>GD</td>
<td>2</td>
</tr>
<tr>
<td>Acceptable</td>
<td>ACCPT</td>
<td>3</td>
</tr>
<tr>
<td>Marginal/Watch list</td>
<td>MG/WL</td>
<td>4</td>
</tr>
<tr>
<td>Special Mention</td>
<td>SM</td>
<td>5</td>
</tr>
<tr>
<td>Sub standard</td>
<td>SS</td>
<td>6</td>
</tr>
<tr>
<td>Doubtful</td>
<td>DF</td>
<td>7</td>
</tr>
<tr>
<td>Bad &amp; Loss</td>
<td>BL</td>
<td>8</td>
</tr>
</tbody>
</table>

**Superior:**
- Credit facilities, which are fully secured i.e. fully cash covered.
- Credit facilities fully covered by government guarantee.
- Credit facilities fully covered by the guarantee of a top tier international Bank.

**Good:**
- Strong repayment capacity of the borrower
- The borrower has excellent liquidity and low leverage.
- The company demonstrates consistently strong earnings and cash flow.
- Borrower has well established, strong market share.
- Very good management skill & expertise.
- All security documentation should be in place.
- Credit facilities fully covered by the guarantee of a top tier local Bank.
- Aggregate Score of 85 or greater based on the Risk Grade Score Sheet

**Acceptable:**
- These borrowers are not as strong as GOOD Grade borrowers, but still demonstrate consistent earnings.
- Borrowers have adequate liquidity, cash flow and earnings.
- Credit in this grade would normally be secured by acceptable collateral (1st charge over inventory / receivables / equipment / property).
- Acceptable management
- Acceptable parent/sister company guarantee
- Aggregate Score of 75-84 based on the Risk Grade Score Sheet

**Marginal/Watch list:**
- This grade warrants greater attention due to conditions affecting the borrower, the industry or the economic environment.
- These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings.
- Weaker business credit & early warning signals of emerging business credit detected.
- The borrower incurs a loss
- Loan repayments routinely fall past due
- Account conduct is poor, or other untoward factors are present.
- Credit requires attention
- Aggregate Score of 65-74 based on the Risk Grade Score Sheet

**Special Mention:**
- This grade has potential weaknesses that deserve management’s close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.
- Severe management problems exist.
- Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage),
- An Aggregate Score of 55-64 based on the Risk Grade Score Sheet.

**Substandard:**
- Financial condition is weak and capacity or inclination to repay is in doubt.
- These weaknesses jeopardize the full settlement of loans.
- Bangladesh Bank criteria for sub-standard credit shall apply.
- An Aggregate Score of 45-54 based on the Risk Grade Score Sheet.

**Doubtful:**
- Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.
- However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Bad & Loss.
- Bangladesh Bank criteria for doubtful credit shall apply.
- An Aggregate Score of 35-44 based on the Risk Grade Score Sheet.

**Bad & Loss:**
- Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/liquidation.
- Prospect of recovery is poor and legal options have been pursued.
- Proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for.
- This classification reflects that it is not practical or desirable to defer writing off this basically valueless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. Legal procedures/suit initiated.
- Bangladesh Bank criteria for bad & loss credit shall apply.
- An Aggregate Score of less than 35 based on the Risk Grade Score Sheet.

41. **Why core risk management is getting so much highlighted for proper financing of a bank**

The core risk management is so much highlighted that impose to modern banking system. Due to deregulation and globalization of banking business, banks are now exposed to diversified and complex risks. As a result, effective management of such risks has been core aspects of establishing good governance in banking business in order to ensure sustainable performance.

In year 2003 and 2004, Bangladesh Bank issued guidelines on the six core risks on Credit, Asset-Liability, Foreign Exchange, Internal Control & Compliance, Money Laundering, and ICT risks. These guidelines may help banks to measure and manage their Liquidity Risk, Interest Risk and Foreign exchange risk and minimize their losses.

The ICT guideline helps to measures to prevent the unauthorized access, modification, disclosure and destruction so that now the interest of customer is fully protected.

The modern banking system is more benefited securing by following the core risk management guidelines imposed by Bangladesh bank and banks is getting so much highlighted for financing as well as all operation of the bank.

42. **What is provisioning? Discuss the basis of determining the status of classified loans and advances. Dec-2013**

**Provisioning:** The Provisioning is a non-cash expense at present for banks to account for future losses on loan defaults. Banks assume that a certain percentage of loans will default or become slow-paying. Banks enter a percentage as an expense when calculating their pre-tax incomes. This guarantees a bank’s solvency and capitalization if and when the defaults occur. The provision allocated each year increases with the riskiness of the loans a given bank makes.
43. **Basis of determining the status of classified loans and advances. Dec-2013 [No Answer]**

44. **It is due to the increase of classified loans of the bank, that they are now facing liquidity problems and the borrower inter-bank call money at very high rate. Justify the viewpoint. Dec-2013**

It is simple understanding that due to increase of classified loans, the bank has faced to liquidity crisis. However, when loans go bad they have some adverse effects on the financial health of banks. Banks make adequate provisions and charges for bad debts which impact negatively on performance. The provisions for bad loans reduce total loan portfolio of banks and as such affects interest earnings on such assets. This constitutes huge cost, as it makes a liquidity crisis for the banks.

On other hand, when banks will go into liquidity crisis, they try to borrow from inter-bank call money at a high interest rate.

The inter-bank call money market is an overnight market in meeting bank’s immediate liquidity needs and reserve deficiencies. Hence, an important task of the call money market is to facilitate liquidity management in the inter-bank market. The orderly and stable functioning of the inter-bank call money market is important to minimize liquidity risk in the banking system as a whole.

So that the banks will penetrate to call money at high interest rate to maintain their adequate liquidity due to loan classification and keeps provision in this same.

45. **Distinguish between loan interest remission and loan write off. Between these two which one is beneficial for that Bank? Discuss. [Need modify]**


Write off of bad debt of a bank that is declared non-collectable (such as a loan on a defunct business or a credit card due that is now in default), removing it from their balance sheets.

In course of conducting credit operations by banks the quality of a portion of their loan portfolio, in many cases, deteriorates and uncertainty arises in realizing such loans and advances. These loans are adversely classified as per existing rules and necessary provision has to be made against such loans. Writing off bad loans having adequate provision is an internationally accepted normal phenomenon in banking business. Owing to the reluctance of banks in Bangladesh in resorting to this system their balance sheets are becoming unnecessarily and artificially inflated. In order to avoid possible legal complications in retaining the claims of the banks over the loans written off section 28 ka has been incorporated in 2001 in the Bank Company Act, 1991.
46. **List down the preconditions those required to be fulfilled by a borrower for availing write off consideration**

[Need modify]

In course of conducting credit operations by banks the quality of a portion of their loan portfolio, in many cases, deteriorates and uncertainty arises in realizing such loans and advances. These loans are adversely classified as per existing rules and necessary provision has to be made against such loans. Writing off bad loans having adequate provision is an internationally accepted normal phenomenon in banking business. Owing to the reluctance of banks in Bangladesh in resorting to this system their balance sheets are becoming unnecessarily and artificially inflated.

In order to avoid possible legal complications in retaining the claims of the banks over the loans written off section 28 ka has been incorporated in 2001 in the Bank Company Act, 1991. In this context the following policies for writing off loans are being issued for compliance by banks:

1. Banks may, at any time, write off loans classified as bad/loss. Those loans which have been classified as bad/loss for the last 5 years and for which 100% provisions have been kept should be written off without delay.
2. Banks may write off loans by debit to their current year's income account where 100% provision kept is not found adequate for writing off such loans.
3. All out efforts should be continued for realizing written off loans. Banks allowed to write-off classified loans below Tk. 50,000 without filing any case.
4. A separate "Debt Collection Unit" should be set up in the bank for recovery of written off loans.
5. In order to accelerate the settlement of law suits filed against the written off loans or to realize the receivable written off loans any agency outside the bank can be engaged.
6. A separate ledger must be maintained for written off loans and in the Annual Report/Balance Sheet of banks there must be a separate "notes to the accounts" containing amount of cumulative and current year's loan written off.
7. Inspite of writing off the loans the concerned borrower shall be identified as defaulter as usual. Like other loans and advances, the writing off loans and advances shall be reported to the CIB of Bangladesh Bank.
8. Prior approval of Bangladesh Bank shall have to obtain in case of writing off loans sanctioned to the director or ex-director of the bank or loans sanctioned during the tenure of his directorship in the bank to the enterprise in which the concerned director has interest.

[Bangladesh Bank has relaxed the guidelines for writing off small bad loans as it considered the litigation cost is sometimes higher than the amount of a loan. It allowed the scheduled banks to write-off classified loans below Tk.50,000 without filing any case. The banks will, however, have to comply with other guidelines while writing off the loans, said a circular issued on Thursday. Earlier, the banks had to write off any bad loan through filing case and keeping 100% provision. ]
The banks go for writing off a loan when it considers there is no hope to get the money back. The scheduled banks are allowed to write off loans, having been adversely classified for more than 5 years, by maintaining a 100% provision.

47. **Distinguish between Money Market & Capital Market**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Money Market</th>
<th>Capital Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Definition</td>
<td>Market where transactions of money and financial assets are accomplished for short time</td>
<td>Market where transactions of money and financial assets are occurred for a long period</td>
</tr>
<tr>
<td>2. Basic Role</td>
<td>Liquidity adjustment</td>
<td>Putting long-term capital to work</td>
</tr>
<tr>
<td>3. Lending &amp; borrowing Period</td>
<td>Short-term (less or equal to 1 year)</td>
<td>Long-term (more than 1 year)</td>
</tr>
<tr>
<td>4. Credit Instruments</td>
<td>Call money, collateral loans, acceptances, bills of exchange</td>
<td>Capital market are stocks, shares, debentures, bonds, securities</td>
</tr>
<tr>
<td>5. Risk</td>
<td>Due to short-term period, the risk is small</td>
<td>Risk is more due to long-term period</td>
</tr>
<tr>
<td>6. Market regulation</td>
<td>Commercial banks are closely regulated</td>
<td>The institutions are not much regulated</td>
</tr>
</tbody>
</table>

48. **Can increased call money rate influence the capital market? Elaborate with example.**

The capital market has influenced by increasing of call money rates that come mainly from supply and demand for liquidity in the money market. The periodic change in liquidity reserve may cause to demand the call money rates that influence the capital market. The money market rate can also be impacted from which Bangladesh Bank conducts the open money market operations. The call money rate is determined by the participants and it depends according to present and future liquidity condition in the market.

For instance, the inter-bank call money borrowing rate was reached peaks at 50% in January 2004, and after that 65.67% in February 2005. So that there is no doubt that the call money rate influences the capital market.

49. **What do you mean by SEC?**

The Securities & Exchange Commission was established in June-1993 and then changed as Bangladesh Securities and Exchange Commission in December-2012 as the regulator of the Bangladesh capital market that comprising Dhaka Stock Exchange and Chittagong Stock Exchange. It defines working process and rules and policies under which the stock exchanges will operate.
50. **Functions of SEC**
The main functions of SEC are as follows:
1. Regulating the Stock Exchanges & securities market
2. Registering & regulating stock-brokers, merchant bankers, trustee of trust deeds, portfolio managers, investment advisers, etc.
3. Registering, monitoring & regulating of collective investment scheme of mutual funds
4. Monitoring & regulating all authorized self regulatory organizations
5. Prohibiting fraudulent & unfair trade practices

51. **Do you think that SEC is performing its role properly by monitoring and controlling capital market of our country? Pass your comments.**
Securities and Exchange Commission (SEC) is the regulatory body of that performing the roles by monitoring and controlling of Bangladesh capital markets. It defines working process and rules and policies under which the stock exchanges will operate.
It supervises the activities of merchant bankers, stock brokers, depository companies, security lenders & borrowers and other market intermediaries.
SEC manages the issues including monitoring about buy-sell or transfer by the sponsor/director of the listed companies and monitoring of shareholding position, price sensitive information, etc. It monitors the other activities and officials functionalities like AGM & dividend payments.

52. **What is Fund Flow**
Fund flow refers to movement of funds in working capital in the normal course of business transactions. The changes in working capital may be in the form of inflow of working capital or outflow of working capital. If the component of working capital results in increase of the fund, it is known as inflow of fund. Similarly, if the components of working capital effects in decreasing the financial position it is treated as outflow of fund.

53. **Importance/ Uses/ Purposes of Fund Flow Statement**
The importances to uses of fund flow statement for a bank are as follows:
1) It highlights the different sources and uses of funds between the two accounting period.
2) It brings into light about financial strength and weakness.
3) It acts as an effective tool to measure the causes of changes in working capital.
4) It helps the management to take corrective actions while deviations between two balance sheets figures.
5) It also presents detailed information about profitability, operational efficiency, and so on.
6) It serves as a guide to the management to formulate its dividend policy, retention policy and investment policy etc.
7) It helps to evaluate the financial consequences of business transactions involved in operational finance and investment.
8) It gives the detailed explanation about movement of funds from different sources and uses of funds.
54. **Distinguish between Cash Flow and Fund Flow statement.**
The points of distinction between cash flow and funds flow statement are as below:

<table>
<thead>
<tr>
<th>Sl.</th>
<th>Cash flow statement</th>
<th>Funds flow statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Useful in short term analysis and cash planning</td>
<td>Useful in long-term analysis of financial planning</td>
</tr>
<tr>
<td>2</td>
<td>It prepared on cash basis</td>
<td>It prepared on accrual basis</td>
</tr>
<tr>
<td>3</td>
<td>It ascertains the changes in balance of cash in hand and bank</td>
<td>It ascertains the changes in financial position between two accounting periods</td>
</tr>
<tr>
<td>4</td>
<td>Analyses the reasons for changes in balance of cash in hand and bank</td>
<td>Analyses the reasons for change in financial position between two balance sheets</td>
</tr>
<tr>
<td>5</td>
<td>It shows the inflows and outflows of cash</td>
<td>It reveals the sources and application of finds</td>
</tr>
</tbody>
</table>

55. **Write a sample of a cash flow statement of your bank**

XYZ Bank Ltd.

Cash Flow Statement
For the year ended 31 December 2013

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Tk.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A  Cash flow from operating activities</strong></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>***</td>
</tr>
<tr>
<td>Interest paid</td>
<td>***</td>
</tr>
<tr>
<td>Cash Paid to employees</td>
<td>***</td>
</tr>
<tr>
<td>Others Expense</td>
<td>***</td>
</tr>
<tr>
<td>Other Income</td>
<td>***</td>
</tr>
<tr>
<td><strong>Cash generated from operating activities</strong></td>
<td>***</td>
</tr>
<tr>
<td>Loans and advances</td>
<td>***</td>
</tr>
<tr>
<td>Other assets</td>
<td>***</td>
</tr>
<tr>
<td>Deposits and other funds</td>
<td>***</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>***</td>
</tr>
<tr>
<td><strong>Net cash received from operating activities</strong></td>
<td>***</td>
</tr>
</tbody>
</table>

| **B  Cash flow from financing activities**      |      |
| Investments                                    | ***  |
| Additions to tangible fixed assets             | ***  |
| Sales proceeds of tangible fixed assets        | ***  |
| **Net cash outflow from investing activities** | ***  |

| **C  Cash flow from financing activities**      |      |
| Share capital borrowings from banks and foreign institutions | ***  |
| Capital and other reserves                      | ***  |
| **Net cash/ (Outflow) from financing activities**| ***  |

| **D  Net increase in cash and cash equivalents**| ***  |
56. **Write-Off and Re-scheduling**

**Write-Off**
A reduction in an individual's or a company's income as the result of an expense. For example, an unplayable credit sale may be a write-off for the creditor, especially if the debtor declares bankruptcy. The bankruptcy means that the debtor is unable to pay the debt, which results in a loss of income for the creditor. A write-off may usually be deducted from one's taxable income.

**Write-off**
To take an asset entirely off the books because it no longer has any value. If an accrual basis taxpayer has taken money into income when bills were sent out to customers, but then some of the bills became uncollectible, the taxpayer may write off the uncollectible ones as a deduction against income. Financial institutions are required to write off loans when they become delinquent by a certain amount.

**Accounting**
In business accounting, the term write-off is used to refer to an investment (such as a purchase of sellable goods) for which a return on the investment is now impossible or unlikely. The item's potential return is thus canceled and removed from ("written off") the business's balance sheet. Common write-offs in retail include spoiled and damaged goods.

**Banking**
Similarly, banks write off bad debt that is declared non-collectable (such as a loan on a defunct business or a credit card due that is now in default), removing it from their balance sheets.

**Rescheduled loans**
Bank loans that are usually altered to have longer maturities in order to assist the borrower in making the necessary repayments.

**Rescheduled loans**
Bank loans that are usually altered to have longer maturities in order to assist the borrower in making the necessary repayments.

**Rescheduled Loan**
New loan that replaces the outstanding balance on an older loan, and is paid over a longer period, usually with a lower installment amount. Loans are commonly rescheduled to accommodate a borrower in financial difficulty and, thus, to avoid a default. Also called restructured loan.
**Definition of ‘Debt Rescheduling’**
A practice that involves restructuring the terms of an existing loan in order to extend the repayment period. Debt rescheduling may mean a delay in the due date(s) of required payments or reducing payment amounts by extending the payment period and increasing the number of payments.

**Rescheduling**
FI’s should follow clear guideline for rescheduling of their problem accounts and monitor accordingly.
Rescheduling of problem accounts should be aimed at a timely resolution of actual or expected problem accounts with a view to effecting maximum recovery within a reasonable period of time.

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57. **Purposes, cases, modes, and requirements of Rescheduling**

**Purposes for Rescheduling:**
(i) To provide for borrower’s changed business condition  
(ii) For better overdue management  
(iii) For amicable settlement of problem accounts

**Cases for Rescheduling:**
Rescheduling would be considered only under the following cases-
(i) Overdue has been accumulated or likely to be accumulated due to change in business conditions for internal or external factors and the borrower is no way able to pay up the entire accumulated overdue in a single shot.  
(ii) The borrower should be in operation and the assets have a productive value and life for servicing the outstanding liabilities.
(iii) The borrower must be capable of and willing to pay as per revised arrangement.

**Modes of Rescheduling:**
Rescheduling can be done through adopting one or more of the following means.
(i) Extension of financing term keeping lending rate unchanged  
(ii) Reduction of lending rate keeping financing term unchanged  
(iii) Both reduction of lending rate and extension of financing term  
(iv) Bodily shifting of payment schedule  
(v) Deferment of payment for a short-term period with or without extending the maturity date (this may be a temporary relief to prevent the inevitable collapse of a company).

However, under any circumstances reschedule period must not exceed economic life of the asset.

**Analysis of Rescheduling Case and decision on different modes of rescheduling:**
An account, which has been going through liquidity crisis, may be considered for rescheduling after identifying symptoms, causes and magnitude of the problem. For
rescheduling an account, the criteria mentioned in Bangladesh Bank guideline, if any has to be followed strictly.

**Post Rescheduling Requirements:**
- Rescheduling of a contract must require prior approval of CRM and management
- All rescheduled accounts are to be kept in a separate watch list so that post rescheduling performance of the accounts can be monitored closely

**58. What is loan pricing? Dec-2013**
Loan pricing is a critically important function in a financial institution's operations. Loan-pricing decisions directly affect the safety and soundness of financial institutions through their impact on earnings, credit risk, and, ultimately, capital adequacy. As such, institutions must price loans in a manner sufficient to cover costs, provide the capitalization needed to ensure the institution's financial viability, protect the institution against losses, provide for borrower needs, and allow for growth. Determining the effectiveness of loan pricing is a critical element in assessing and rating an institution's capital, asset quality, management, earnings, liquidity, and sensitivity to market risks.

**59. Discuss the components which are to be taken into account in pricing of loan. Dec-2013**

Or, **Components which are to be taken into account in pricing a loan program**

Or, **Factors affecting the Loan Pricing**

The following is a list of factors that institutions should consider in loan pricing.

1. **Cost of funds:** The cost of funds is applicable for each loan product prior to its effective date, allowing sufficient time for loan-pricing decisions and appropriate notification of borrowers.
2. **Cost of operations:** The salaries & benefits, training, travel, and all other operating expenses. In addition, insurance expense, financial assistance expenses are imposed to loan pricing.
3. **Credit risk requirements:** The provisions for loan losses can have a material impact on loan pricing, particularly in times of loan growth or an increasing credit risk environment.
4. **Customer options and other IRR:** The customer options like right to prepay the loan, interest rate caps, which may expose institutions to IRR. These risks must be priced into loans.
5. **Interest payment and amortization methodology:** How interest is credited to a given loan (interest first or principal first) and amortization considerations can have an impact on profitability.
6. **Loanable funds:** It is the amount of capital an institution has invested in loans, which determines the amount an institution must borrow to fund the loan portfolio and operations.
7. **Patronage Refunds & Dividends:** Some banks pay it to their borrowers/shareholders in lieu of lower interest rates. This approach is preferable to lowering interest rates.
8. **Capital and Earnings Requirements/Goals:** Banks must first determine its capital requirements and goals in order to determine its earnings needs.

60. "**Proper Pricing is most essential before launching a new loan product.** Discuss the statement with your view.

Loan pricing is a critically important function in a financial institution's operations. Loan-pricing decisions directly affect the safety and soundness of financial institutions through their impact on earnings, credit risk, and, ultimately, capital adequacy. As such, institutions must price loans in a manner sufficient to cover costs, provide the capitalization needed to ensure the institution's financial viability, protect the institution against losses, provide for borrower needs, and allow for growth. Institutions must have appropriate policy direction, controls, and monitoring and reporting mechanisms to ensure appropriate loan pricing. Determining the effectiveness of loan pricing is a critical element in assessing and rating an institution's capital, asset quality, management, earnings, liquidity, and sensitivity to market risks.

Loans should be priced at a level sufficient to cover all costs, fund needed provisions to the allowance accounts, and facilitate the accretion of capital. Specific consideration should be given to the cost of funds, the cost of servicing loans, costs of operations, credit risks, interest rate risks, and the competitive environment.

61. **Factors affecting while assessing a loan proposal**

The major factors that interact to loan proposal assessment are mentioned below:

1. **Credit-worthiness:** These will be treated on behalf of applicant's credit history, capacity to repay, collateral value as eligibility criteria.
2. **Business and Credit history:** The eligibility may be judged by business track records and also qualifying for the different types of credit history like type of credit facility, credit limit, repayment records, etc.
3. **Working capital:** The present working capital may be considered that can be thought of as cash at hand and bank.
4. **Collateral:** Collateral securities which are assets will be evaluated as secured assets and pledge or hypothecation of inventory.
5. **Keen money management skills:** This includes a solid cash flow, the ability to live, and skills of keeping accurate and timely financial records.
6. **Earning power:** The earnings of borrower to be given out as loan are some of the determining factors in granting the loans.
7. **Ability to repay:** The borrower should have to ability to repay the loans from his business and personal income.
8. **Experience and character:** The borrower should have experience in business to run that should have business skills and managerial experience.

62. **In competitive market, which of the variable and fixed pricing as banker you would advocate? Dec-2013**

A variable interest rate loan is a loan in which the interest rate charged on the outstanding balance varies as market interest rates change. As a result, your payments will vary as well (as long as your payments are blended with principal and interest).
Fixed interest rate loans are loans in which the interest rate charged on the loan will remain fixed for that loan's entire term, no matter what market interest rates do. This will result in your payments being the same over the entire term. Whether a fixed-rate loan is better for you will depend on the interest rate environment when the loan is taken out and on the duration of the loan.

When a loan is fixed for its entire term, it will be fixed at the then prevailing market interest rate, plus or minus a spread that is unique to the borrower. Generally speaking, if interest rates are relatively low, but are about to increase, then it will be better to lock in your loan at that fixed rate. Depending on the terms of your agreement, your interest rate on the new loan will remain fixed, even if interest rates climb to higher levels. On the other hand, if interest rates are on the decline, then it would be better to have a variable rate loan. As interest rates fall, so will the interest rate on your loan.

This discussion is simplistic, but the explanation will not change in a more complicated situation. It is important to note that studies have found that over time, the borrower is likely to pay less interest overall with a variable rate loan versus a fixed rate loan. However, the borrower must consider the amortization period of a loan. The longer the amortization period of a loan, the greater the impact a change in interest rates will have on your payments.

Therefore, adjustable-rate mortgages are beneficial for a borrower in a decreasing interest rate environment, but when interest rates rise, then mortgage payments will rise sharply.

63. Discuss different types of credit facilities that a commercial bank can provide to its clients. Dec-2013

Different types of credit facilities by commercial bank are as follows:
1. Overdraft Facilities: The depositor in a current account is allowed to draw over and above his account up to a previously agreed limit. Bank charges interest only on overdrawn amount.
2. Cash Credit: Borrowers will be allowed to withdraw small sums of money according to his requirements, but not exceed credit and he is required to pay interest only.
3. Discounting Bills of Exchange: The holder of a bill can get it discounted by the bank, when he is in need of money. After deducting its commission, the bank pays the present price of the bill to the holder.
4. Money at Call: Bank grant loans for a very short period, not exceeding 7 days to the dealers or brokers in stock exchange markets against collateral securities.
5. Term Loans: Provide loans to trading, industry and agriculture sector with a period between 1 to 10 years in installment basis. It also provides working capital funds to the borrowers.
6. Consortium Finance: Two or more banks may jointly provide large loans to the borrower against a common security.
7. **Consumer Credit**: Grant credit to households in a limited amount to buy some durable consumer goods or to meet some personal needs.

8. **Miscellaneous**: The other forms of loan are packing credits given to exporters, export bills purchased/discounted, import finance against import bills, finance to the self employed, credit to the public sector, credit to the cooperative sector.

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**64. Why credit-worthiness of an applicant is assessed? Dec-2013**

Creditworthiness is an important business and personal asset each person has to manage. This is an asset which could make or break business relationships and interestingly in some cases, personal relationships. This is a complex abstract concept that is evaluated in many ways by different entities. The factors contribute to creditworthiness is really dependent on the specific evaluation case.

This article explains how one can determine a consumer’s creditworthiness and affordability, in other words, a consumer’s ability to repay debt. So what is creditworthiness?

**Creditworthiness**

Definitions to summarize creditworthiness have existed for as long as credit has been extended to individuals and organizations. With the promulgation of the Act, the standardized definition of creditworthiness has to be taken into consideration. Any definition of creditworthiness needs to withstand any test in terms of the NCA. Any definition associated with creditworthiness should therefore fall within the ambit of a consumer’s:

- Affordability
- Credit history

Doing a proper affordability calculation and credit risk assessment based on the credit history of the consumer will allow the credit provider to determine the creditworthiness of the consumer. Doing an investigation into the creditworthiness will also ensure that credit is not extended recklessly and that the consumer is not over-indebted.

**So, when is a consumer over-indebted?**

A consumer is over-indebted when:

The consumer will not be able to satisfy the requirements of obligations in terms of credit agreements; and The consumer will not be able to satisfy those requirements in a timely manner.

In the following sections we are going to consider how to assess the creditworthiness of a consumer in terms of his/her credit history and affordability. A consumer's creditworthiness has traditionally been determined by a number of factors, a few examples include:

- Record of payments in the past
- Income
- Regular expenses
- Current debt and the repayment of such
- Employment

When assessing the creditworthiness of the consumer, the following credit qualities of the consumer must be investigated:

- The payment record of the consumer
- The income of the consumer
• The current exposure in terms of debt of the consumer
• The employment prospects of the consumer
• The residence of the consumer
• The age of the consumer
• Marital status of the consumer
• The need for the credit
• The influence of any economic variables.

65. **Credit Facilities Available in Banks. Dec-2013**

• **Overdraft:** The word overdraft means the act of overdrawning from the Bank account. In other words, the account holder withdraws more money from the Current Account than has been deposited in it. The loan holder can freely draw money from this account up to the limit and can deposit money in the account. The Overdraft loan has an expiry date after which renewal or enhancement is necessary for enjoying such facility. Any deposit in the overdraft account is treated as repayment of loan. Interest is charged as balance outstanding on quarterly basis. Overdraft facilities are generally granted to businesspersons.

• **Cash Credit:** These are also the facilities where, like overdrafts, a limit is set in the account not exceeding one year. However difference is that a separate “Cash Credit’ account is opened by the bank where limit is applied instead of client’s account. Banks lend money against the security of tangible assets or guarantees in the method. It runs like a current account except that the money that can be withdrawn from this account is not restricted to the amount deposited in the account. Instead, the account holder is permitted to withdraw a certain sum called “limit” or “credit facility” in excess of the amount deposited in the account. Once a security for repayment has been given, the business that receives the loan can continuously draw from the bank up to that certain specified amount. The purpose of cash credit is to meet working capital need of businesspersons.

• **Bill Discounting:** Under this type of lending, Bank takes the bill drawn by borrower on his (borrower’s) customer and pays him immediately deducting some amount as discount and commission. The Bank then presents the Bill to the borrower’s customer on the due date of the Bill and collects the total amount. If the bill is delayed, the borrower or his customer pays the Bank a pre-determined interest depending upon the terms of transaction.

• **Term Loan:** This type Banks lend money in this mode when the repayment is sought to be made in fixed, pre-determined installments. These are the loans sanctioned for repayment in period more than one year. This type of loan is normally given to the borrowers for acquiring long-term assets.

• **Short Term loan:** Term loan extended for short period usually up to One year is term as STL. This type of loan may or may not have specific repayment schedule. However, STL with repayment schedule is preferable.

• **Letter of Credit:** This is a pre-import finance, which is made in the form of commitment on behalf of the client to pay an agreed sum of money to the beneficiary of the L/C upon fulfillment of terms and conditions of the credit.
Thus at this stage bank does not directly assume any liability, as such the same is termed as contingent liability.

- **Payment against Documents:** Payment against Documents or simply (PAD) is a post-import finance to settle the properly drawn import bills received by the bank in case adequate fund is not available in client’s account. This is a demand loan for interim period and liquidates by retiring import bills by the client. The bank shall immediately serve a notice upon the client mentioning arrival of documents with a request to arrange retirement of the same immediately.

- **Loan against Trust Receipt (LTR):** This is also a post-import finance facility awarded to retire import bill directly or under PAD as the case may be. In this case, bank may or may not realize margin on the total landed cost, depending upon banker-customer relationship. Here the possession of the goods remains with the borrower and the borrower executes ‘Letter of Trust Receipt’ in acknowledgement of debt and its repayment along with interest within agreed period of time.

- **Export Finance:** Like import finance DBL advances in export trade at both pre and post shipment stages. In this type of advance, standing of both opener and beneficiary of export L/C as well as standing of the L/C issuing bank are of important consideration. The pre-shipment facilities are usually required to finance the costs to execute export orders, such as: procuring & processing of raw materials, packaging and transportation, payment of various fees and charges including insurance premium. While post-import facilities are directed to finance exporter’s various requirements, which are required to be settled immediately on the backdrop that usually, settlement of export proceeds takes some time to complete.

- **Syndicated Loan:** These are the loans usually involving huge amount of credit and such to reduce a particular bank’s stake. A number of banks and financial institutions participate in such credit, known as loan syndication. The bank primarily approached by arranging the credit is known as the lead or managing banks.

- **Lease Finance:** These types of finance are made to acquire the assets selected by the borrower (lessee) for hiring of the same at a certain agreed terms and conditions with the bank (lessor). In this case, bank retains ownership of the assets and borrower possesses and uses the same on payment of rental as per contract. In this case, no down payment is required and usually purchase option is not permitted.

- **Bank Guarantee:** Bank Guarantee is one sort of non funded facility. Bank Guarantee is an irrevocable obligation of a bank to pay a pre-agreed amount of money to a third party on behalf of a customer of a bank. A contract of guarantee is thus secondary contract, the principal contract being between the beneficiary and creditor and the principal debtor themselves to which guarantor is not a part. If the promise or the liability in the principal contract is not fulfilled or discharged, only then the liability of guarantor or surety arises.
66. **Agricultural credit plays a very important role in economic development of the country with high GDP growth. Explain this mentioning the impact it keeps on the country's overall GDP attainment.**

Or, **Significance/Impacts of Agricultural Credit in economic developments**

Agricultural credit plays a vital role in economic development with positive GDP growth of a country. These types of finance may promote to development in agro-economic sector like agriculture, poultry, fishery, dairy, and livestock. The roles of agricultural finance are described below:

1. Agriculture finance assumes vital and significant importance in the agro-socio-economic development at macro and micro level as well as GDP growth.
2. It plays a catalytic role in strengthening the agro-business and augmenting the productivity of scarce resources.
3. Use of new technological inputs purchased through agro-finance helps to increase its productivity.
4. Agricultural finance can also reduce the regional economic imbalances and is equals to reduce the inter-agro asset and wealth variations.
5. It is like a lever with both forward and backward linkages to the economic development at micro and macro level.
6. As agriculture is still traditional and subsistence in nature, agricultural finance is needed to create the supporting infrastructure for adoption of new technology.
7. It promotes to carry out irrigation projects, rural electrification, installation of fertilizer and pesticide plants, execution of agro-promotional and poverty alleviation programs in the country.

67. **Suppose against a loan proposal of your branch, the head office of the bank has sanctioned a loan of taka 1.00 (one) crore against a mixed farm (Agriculture, poultry, fishery and dairy farm). You were advised by head office to disburse the loan after due documentation. Please list down the names of the documents to be obtained from the borrower before disbursement of the loan.**

1. **General Documents**
   - Acceptance of sanction letter
2. **Charge Documents**
   - D.P. Note
   - Letter of Disbursement
   - Letter of Agreement / Arrangement
   - Letter of Undertaking
   - Letter of Installment
3. **Hypothecation of Stock & Receivable**
   - Letter of Hypothecation on stock of Goods & receivables
   - Irrevocable General Power of Attorney (IGPA) to sell hypothecated stock & Receivable
   - Letter of Disclaimer
4. **Lien & Set-Off**
   - Letter of Lien
   - Letter of Authority to debit the customer account

5. **Insurance Policy**
   - Valid Original Insurance Policy covering fire risks
   - Original receipt of premium

6. **Undertaking**
   - No liability with any other bank(s) excepting as declared in proposal
   - The customer shall deposit Sale proceeds in respective Account

7. **Guarantee**
   - Personal guarantee, spouse guarantee, third party personal guarantee

8. **Other Documents**
   - Letter of Indemnity to be obtained
   - Undated and post-dated cheques
   - Up to date & Clean CIB report

9. **Legal, mortgage and security documents**
   - Legal Opinion, valuation certificate of branch and third party surveyor of the property
   - Non-Encumbrance Certificate
   - Memorandum of Deposit of Title Deed
   - Duplicate Carbon Receipt, Mutation Khatian
   - Up to date Rent/TAX Payment Receipt
   - Khatian-CS, SA, RS, BS, DP
   - Original title and bia Deeds
   - Mortgage Deed duly registered with District/ Sub-Registry Office
   - Registered Irrecoverable General Power of Attorney (IGPA) authorizing to sale the Mortgage Property

68. **A project loan is treated as a term loan. Discuss why. Discuss the risks you anticipate in such financing.**

Project finance transactions typically involve the direct financing of infrastructure and industrial projects.

The financing is usually secured by the project assets such that the financial institution providing the funds will assume control of the project if the sponsor has difficulties complying with the terms of the transaction.

Project finance is generally used for large, complex and sizable operations, such as roads, oil and gas explorations, dams, and power plants. Due to their complexity, size, and location, these projects often have challenging environmental and social issues, which may include involuntary resettlement, loss of biodiversity, impacts on indigenous and/or local communities, and worker safety, pollution, contamination, and others. Because these projects generally face high scrutiny from regulators, civil society, and financiers, the project’s sponsoring companies allocate more resources to managing environmental and social risks.

If not managed properly, the environmental and social risks can result in disrupting or halting project operations and lead to legal complications and reputational impacts that threaten the overall success of the project. Because
anticipated project cash flows typically generate the necessary resources to repay the loan, any disruption to the project itself, regardless of the financial standing of the sponsoring companies involved, poses a direct financial risk to the financial institution.

69. Agricultural Finance: Definition, Nature and Scope
A field of work in which people aim to improve the access of the agriculture industry, including farmers and all related enterprises, to efficient, sustainable financial services.

AGRICULTURAL FINANCE

Meaning:
Agricultural finance generally means studying, examining and analyzing the financial aspects pertaining to farm business, which is the core sector of Pakistan. The financial aspects include money matters relating to production of agricultural products and their disposal.

Definition of Agricultural finance:
Murray (1953) defined agricultural. Finance as “an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society’s interest in credit for agriculture.”
Tandon and Dhondyal (1962) defined agricultural. Finance “as a branch of agricultural economics, which deals with and financial resources related to individual farm units.”

Nature and Scope:
Agricultural finance can be dealt at both micro level and macro level. Macro-finance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling of different agricultural credit institutions. Hence macro-finance is related to financing of agriculture at aggregate level.

Micro-finance refers to financial management of the individual farm business units. And it is concerned with the study as to how the individual farmer considers various sources of credit, quantum of credit to be borrowed from each source and how he allocates the same among the alternative uses with in the farm. It is also concerned with the future use of funds. Therefore, macro-finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of use of total credit for the development of agriculture, while micro-finance refers to the financial management of individual farm business.