
UNIT – I

BANKER AND CUSTOMER

Evolution of Banking

It has not so far been decided as to how the word “Bank” originated. Some authors say that this word is derived from the words “Bancus” or “Banque” which means a bench. The explanations of this origin is attributed to the fact that the Jews in Lombardy transacted the business of money exchange on benches in the market place and when the business failed, the “Banco” was destroyed by the people

Other authorities hold the opinion that the word “Bank” is derived from the German word “Back” which means joint stock fund. Later on, when the Germans occupied major part of Italy, the word “Back” was Italianized into “Bank”.

It is, therefore, not possible to decide which of the opinions is correct for no record is available to ascertain the validity of any of the opinions.

Types of Banks

Primarily all banks gather temporarily idle money for the purpose of lending to others and investing, which bring gain in the form of return, profit and deviants etc. However, due to the variety of resources of money and the diversity in lending and investment operations, banks have been placed in various categories, such as:

- Commercial Banks
- Savings Banks
- Industrial Bank
- Mortgage Banks
- Agriculture Bank
- Investment Banks
- Central Banks
- Co-operative Bank

Commercial Banks

The commercial banks receive deposits from the general public, which are repayable on demand upon written orders of the depositors. As their most distinctive feature the commercial banks maintain chequing accounts for the constituents.

The commercial banks are also distinguished for providing short-term finance to trade, commerce and industry to enable these sectors to expand their productive activities.

Examples: Muslim Commercial Bank, UBL, Citi Bank etc.

Industrial Bank:

The primary function of these banks is to grant loans to Industrial sector so that the industries may grow. These are also called specialized financial institutions. They play a vital role in the economic development of a country.

Example: Industrial Development Bank of Pakistan (IDBP)

Savings Bank

The basic purpose of these banks is to inculcate the habit of savings in the people. The savings bank deposits are not repayable upon only the written orders of the depositors but the depositors or his agent has to appear personally at the saving bank to make withdrawal, and for

this purpose he must present a pass book, a certificate of deposit or some similar documents to prove his right to receive payment.

Examples: Post office savings banks and savings account at National Saving organization are well known operational Savings Banks in Pakistan.

Mortgage Banks

These banks mainly deal in loans for the acquisition or construction of real estate against the security of mortgages. Savings and loans associations and farm – loan associations are some of the well-known forms of the mortgage banks.

Example: House Building Finance Corporation (HBFC)

Agriculture Banks

These banks provide loans to agriculturists for purchasing seeds, fertilizers, tractors. Chemicals etc. In this way, they provide assistance to make the agriculture sector stronger.

Examples: Agricultural Development Bank of Pakistan (ADBP, New name is Zarai Tarasqiati Bank Ltd.)

Investment Banks

The investment banks assist business house and the Governmental bodies to raise money through the sale of stocks and bonds for usually long term purposes. These banks perform the usual functions of raising deposits of idle money from the public and finance the business house and other bodies.

Example: Investment Corporation of Pakistan (ICP), National Investment Trust (NIT).

Central banks

Central banks occupy a unique position in the banking structure of a country because they have been entrusted with the responsibility of controlling the money supply, interest rates and financial market of the country for the purpose of economic development.

Examples: State Bank of Pakistan, Bank of England and Federal Reserve Bank of USA are examples of central banks.

Cooperative banks:

These banks are established under Cooperative Societies Act. They are established to serve a specific area of society.

Examples: Punjab Cooperative Bank (PCB), Federal Cooperative Bank.

COMMERCIAL BANKS

Definition:

A bank is an institution, which deals in money and credit. Banks purely organized for the purpose of trade and commerce, where the purpose is to maximize profit out of banking services are known as commercial banks. The primary business of the commercial banks is to accept deposits and make loans and investments with the object of securing profits for its clients as well as for itself. In the words of Professor Sayers, "Commercial banks are institutions, whose debts- usually referred to as bank deposits are commonly accepted in final settlement of other people's debt". Besides this function, a modern commercial bank renders a number of services to its customers.

FUNCTIONS OF COMMERCIAL BANKS

A modern commercial bank performs various functions. These functions can be categorized into two major classifications:

- A. Primary functions
- B. Secondary functions

A. Primary functions

Receiving Deposits

The most important function of a commercial bank is to attract deposits from the people who cannot profitably use it. A bank generally receives deposits by means of the following accounts.

Current accounts:

On current or demand deposits, bank pays practically no interest. The amount can be withdrawn in part or in full, at any time by issuing a cheque.

Saving account:

In this case, there is a limit to the total weekly withdrawals regarding the amount and frequency of money drawings. A moderate interest is paid.

(a) **Fixed accounts:** Such deposits are left with the bank for a certain fixed period before the expiry of which they cannot be withdrawn. Higher rate of interest is paid on such deposits.

Advancing loans

The second major function of a commercial bank is to issue loans and make advances out of the public deposits. The bank makes provisions by keeping reserves to meet the demand liabilities of the depositors and advances excess of deposits to earn interest in different channels. Loans may be:

- Secured:** Against which security is demanded or property pledged
- Unsecured:** Advance on personal reputation and goodwill without any security

A bank creates advances in the following ways.

- Intermediary loans
- Short term loans
- Bank overdrafts
- Cash credit
- By discounting bills

A. Secondary functions:

Secondary functions are further classified into two kinds:

- I. Public Utility Services
- II. Agency Services

i) Public Utility Services

1. Discounting bills of exchange

In regards of facilitating trade function and earning interest, this is one of the most important functions of a commercial bank. For instance, a trader who does not wish to lock up large funds in trade credit may draw a bill of exchange on his debtor and after it has been accepted by or on his behalf, the drawer may get it discounted by his banker. This gives him

immediate possession of money. In this regard deduction of interest as commission of bank has to be borne. On maturation of bills, bank realizes the face value and earns profit. In case worst happens the bank can rediscount the bills with central bank.

2. Transfer of funds

Another function of a commercial bank is to act as a middleman and provide facilities for transfer of money from one person to another or from one place to another at a very low charge as compared to other institutions. Following are the means of transfer of money:

1. Cheques
2. Bank drafts
3. Telegraphic transfer
4. Telephonic transfer
5. Letter of credit
6. Traveler's cheque

1. Provide safe deposit lockers

Commercial banks also provide lockers for keeping valuable personal belongings. One key of the locker is handed over to the depositor and the bank retains the other. The depositor may keep anything in the safe and take it away whenever he desires. The bank charges some fee for the service.

(ii) Agency functions

The bank is an agent and the client is the principal. The bank performs many functions in the capacity of special agent of the customers like:

1. Purchasing and selling stocks and shares on his behalf.
2. Making sundry payments like rent, insurance, premium, on his behalf.
3. Receive money on their behalf e.g. dividend, rent, interest etc.
4. Sale and purchase of securities.
5. Transfer or deposit money from one place or bank to another.
6. Collecting bills on behalf of K.E.S.C, telephone departments etc.

2. Purchase and sale of foreign currency

While going abroad the Central Bank authorizes legally to carry a limited amount of respective foreign currency. The commercial banks perform this important function of converting home currency into foreign currency and vice versa. This is a great facility in foreign dealing. In Pakistan, the foreign exchange branches of some commercial banks perform this function unlike other countries where there are separate foreign exchange banks.

3. Miscellaneous Services

In addition to the above functions, banks perform miscellaneous functions

1. They Supply information and advice to their clients on matters relating to investment
2. Provide facility to travellers by issuing travellers cheque which are internationally accepted
3. Act as trustees and attorneys of their clients
4. Issue letters of credit for the facility of tradesmen and in general perform all functions that will bring in profits.

TYPES OF BANK ACCOUNTS

Current Account:

These are payable to the customer whenever they are demanded. When a banker accepts a demand deposit, he incurs the obligation of paying all cheques etc. drawn against him to the extent of the balance in the account. Because of their nature, these deposits are treated as current liabilities by the banks. Bankers do not allow any profit on these deposits, and customers are required to maintain a minimum balance, failing which incidental charges are deducted from such accounts.

Summary:

- Withdrawal is made through cheques
- No restrictions on withdrawal
- No interest is given
- Not subject to zakat deductions
- Generally opened by businessmen
- Overdraft facility

Savings Account:

The main object of the savings deposits is to encourage thrift among people of small means like children, married and household women, who can deposit only a very small amount at a time.

Summary:

- Withdrawal is made through cheques.
- There are certain restrictions on withdrawal of money i.e. the account holder can't make withdrawal more than 8 times in a month. In practice, this is not followed by the banks.
- Small amount of interest is given.
- Subject to zakat deduction.
- Generally opened by small savers
- No overdraft facility is given

Fixed account:

The deposits that can be withdrawn after a specified period of time are referred to as Fixed or Term Deposits. The period for which the bank keeps these deposits ordinary varies from three months to five years in accordance with the agreement made between the customer and the banker. Interest/ return is paid to the depositors on all Fixed or Time Deposits, and the rate of interest/ return varies with the duration for which the amount is kept with the banker. Many depositors keep their money in Fixed Deposits with banks as investment because of the interest/return paid on them. Since fixed or term deposits remain with the bank for a specific period, they can be profitably employed. By lending out or investing these funds, the bank earns more than the interest/return that it has to pay on them to the depositors.

Summary:

- No use of cheques.
- Withdrawal is not allowed before maturity
- High rate of interest is given.
- Subject to zakat deduction
- No overdraft facility is given.

Other Types of Account

1. Fixed or Term Deposits in Joint Names:

Fixed / Term Deposits may be in the joint names of two or more persons. The payment to either of them will not discharge the banker, unless authorized by all the joint depositors.

2. Home Safe accounts:

A nominal rate of interest is paid. The bank supplies a box to the depositor in order to drop small savings into it from time to time. The box is taken to the bank periodically and the amount credited to the customer's account.

3. Profit and loss sharing accounts:

A great change in the history of banking is made by the introduction of interest free deposits. The deposits accepted are invested in interest free operations and on profit and loss sharing basis.

PROCEDURE FOR OPENING A BANK ACCOUNT

Following are the main steps in opening a bank account:

1. Selection of type of account:

The first step is to select the type of account to be opened. An account may have several types such as current, saving fixed account. An account can be opened jointly or singly.

2. Selection of bank and branch:

As prospective account holder should select the bank. Usually those banks are chosen as which provide high rate of interest or quality of service. Then such a branch is selected to which the access is easy.

3. Obtaining the account opening form:

An account opening form is obtained from the bank. It should be read carefully and filled in with utmost care.

4. Obtaining the reference:

One or two reference are obtained by the prospective account holder. The people who give references sign the form and give their account no. and name and address.

5. Submission of the form

The form should be submitted along with the required documents. These documents vary from account to account.

6. Giving specimen signature:

The account holder signs on a card called specimen signature card. These signatures are matched with the cheques of the account holder.

7. Making initial deposit:

The applicant is allotted an account and asked to make initial deposit in his account through a deposit slip.

8. Account is opened:

As soon as the initial deposit is made, the account is opened.

9. Receiving of cheque book/term deposit certificate:

Finally, a cheque book is issued which bears the applicant's account no. The money can be withdrawn with the help of these cheques.

CREDIT INSTRUMENTS

Definition:

Credit instruments are the media by which credit is created. In a credit transaction, the receiver of credit promises to pay cash at some future date. The promise to pay or the evidence of indebtedness given by the debtor to the creditor is the credit instrument. These are created through the mechanics of the bank.

Negotiable Credit Instrument

A negotiable instrument is one where in the property passes freely from hand to hand either by law or by the customs of the money market.

Non-Negotiable Credit Instrument:

The term non-negotiable restricts the negotiability of the cheque (i.e.) it is not valid for transfer to any other person.

Following is the list of credit instruments:

1. Cheque
2. Bill of exchange
3. Promissory note
4. Travelers cheque
5. Letter of credit
6. Bank draft
7. Pay order
8. Hundies
9. Circular letter of credit
10. Treasury bills
11. Book credit
12. Bank notes
13. Documentary bills
14. Accommodation bills

Negotiable Instruments:

The term “Negotiable Instrument” means a document in writing which creates a right in favour of some person and which is freely transferable by delivery.

According to section 13(1) of the act, “A negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer”.

Characteristics of Negotiable instruments

Negotiability

In the case of a bearer instrument, the ownership passes from one person to another by mere delivery, as in case of an order instrument, the ownership passes by endorsement and delivery. It means that the property in a negotiable instrument is freely transferable.

Title

A holder in due course of a negotiable instrument gets the instrument free from all defects. The term ‘holder in due course’ means the bonafide transfer for value of a negotiable instrument who takes it in good faith and before maturity. His title is not in any way affected by the defective title of the transferor or any party.

Recovery

The holder in due course is entitled to sue on the instrument in his own name. He need not give any notice to the transferor or any other person liable for payment on the instrument.

Transfer

A negotiable instrument can be transferred any number of times before maturity. A cheque, however, can be transferred any number of times till it becomes stale, i.e. on the expiry of six months from the date of issue.

Cheque

Definition:

“A ‘Cheque’ is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand”.

Thus it may be clear that all cheques are bills of exchange but all bills of exchange are not cheques. A cheque however, does not require acceptance.

Specimen of a cheque

NATIONAL BANK Ltd

Regal Chowk

Karachi

Account No. 49 095241

Date _____

Pay _____ or Bearer

Rupees _____ Rs. _____

Cheque No. 00032131

sd

Essentials/ Main feature of a cheque:

From the above definition it is understood that cheque is a bill of exchange possessing all the essential of a bill along with two qualifications;

1. A cheque is an order, not a request
2. It is an unconditional order
3. It is always drawn on a banker and
4. It is always payable on demand.
5. It must be in writing.
6. Payee to be certain.
7. It must be signed by the account holder.
8. It must state a certain sum of money.

Parties to a cheque

1. Drawer:

He is the person who signs the cheque and orders back to pay a certain sum of money.

2. **Drawee:**

The person to whom the account holder addresses is called drawee. He is a banker in case of cheque.

3. **Payee:**

The person who has to receive the amount of the cheque is called payee.

Kind of cheques

There are the following kinds of cheques:

- (i) Primary kinds
- (ii) Other kinds

i. Primary Kinds:

The following are the kinds in this group.

a. Bearer Cheque:

The cheque which contains the phrase "or Bearer" is called bearer cheque. This is a cheque payable to any person who bears it.

Specimen of a bearer cheque

NATIONAL BANK Ltd
Regal Chowk

Karachi

Account No. 49 095241

Date _____

Pay _____ or **Bearer**

Rupees _____ Rs. _____

Cheque No. 00032131

sd

b. Order cheque:

The cheque which contains the phrase "or Order" is called order cheque. This cheque is payable to a specific person whose name is written as payee or to the order of payee. This is a safer cheque and in case it is lost, it cannot be encashed by someone else.

Specimen of an Order cheque

NATIONAL BANK Ltd	
Regal chowk	
Karachi	
Account No. 49 095241	Date
Pay _____ or Order	
Rupees _____ Rs. _____	
Cheque No. 00032131	
sd	

c. Open and cross cheque

The cheque which does not contain two transverse line across its face is called an open cheque. It means that this cheque can be presented at the counter of the drawee by the bearer for payment.

On the other hand, a cross cheque bears two transverse lines across its face. Such a cheque cannot be presented at the counter of the bank but must be presented through a bank.

Specimen of a cross cheque

//	
NATIONAL BANK Ltd	
Regal chowk	
Karachi	
Account No. 49 095241	Date _____
Pay _____ or Bearer	
Rupees _____ Rs. _____	
Cheque No. 00032131	
sd	

1. Other Kinds:

Marked Cheque:

It is a cheque which is certified by the bank on whom it is drawn to the effect it can be honoured for payment when presented.

Postdated cheque:

The cheque which bears the future date is called Postdated cheque. This cheque cannot be presented for payment before the date.

Stale cheque:

The cheque which remains in circulation and not presented for more than 6 months is called a stale cheque which is dishonored if presented.

a. Mutilated cheque:

The cheque which becomes out of shape is called mutilated cheque.

Dishonour of a cheque

Cheques can be drawn on the bank where the drawer has an account. Banks usually provide cheques (cheque-books) to their customers. The drawer has only to fill it up and signed. Cheques may be made payable to the drawer himself.

The bank does not refuse to pay the cheque provided.

- There is adequate balance in customer's account.
- Cheque is properly drawn and complete in all respects,
- Customer's signature on the cheque tallies with the specimen
- Signatures kept in the bank.
- The cheque is not a crossed one, if presented on the counter for
- payment,
- There is no reason to doubt the bonafide of the holder.

When banker must refuse payment of a cheque in the following cases, the banker must refuse payment of customer cheque:

1. Where the customer has stopped payment of the cheque.
2. When the banker receives notice of customer's death. But a payment made before receiving the notice of death is valid.
3. When an order of adjudication has been passed against the customer by the insolvency courts.
4. When the banker receives notice of customer's insanity.
5. When a garnishee order or any other legal order of the court prohibits payment of cheque.
6. When the customer has given a notice to the banker for assignment of the credit balance of his account.
7. When the banker has reason to believe that holder's title defective.

When banker may refuse payment of cheque

- a. When the cheque is not properly drawn and complete in respects e.g. ambiguous, mutilated, bearing an irregular endorsement signature differs etc.
- b. When the cheque is postdated.
- c. When the balance in customer's account is insufficient to meet the cheque.
- d. When the cheque has become stale.
- e. When signatures of all the joint holders of the account or their survivors do not appear on the cheque.
- f. When the balance in customer's account cannot be properly located to the payment of the cheque e.g. when it is held in trust the banker having a lien over it.
- g. When a cheque is presented at a branch other than the one where the customer has account.
- h. When the customer's account is closed before the cheque presented for payment.

Crossing of a cheque

Cheque which can be presented by the payee for payment at the counter of the bank on which they are drawn are called as open cheques. These cheques may be Payable to the bearer or to the order of the payee. The customer may even cross the cheque. Crossing of a cheque means putting two parallel transverse lines across the face of the cheque with or without the use of words like & Co /. Not negotiable, etc. such cheques are called as crossed cheques. Payment of such a cheque cannot be obtained at the customer of the bank. Such cheque must be collected through a banker.

Who may cross a cheque?

Cheques may be crossed by three persons. 1. The drawer. 2. Theholder and 3. The banker. A cheque may be crossed generally or especially by the drawer. Section 125 of the Act authorizes the holder and the banker to cross the cheques in the following ways:

- I. Where a cheque is uncrossed, the holder may cross it generally or specially.
- II. Where a cheque is crossed generally the holder may cross is specially.
- III. Where a cheque is crossed generally or specially, the holder may add the words not negotiable.
- IV. Where a cheque is crossed specially the banker to whom may again cross it especially to another banker or his agent for collection.

Types of crossing:

- General crossing
- Special crossing

General Crossing.

1. Plain Crossing:

Where a cheque bears across its face an addition of the words and company or any abbreviation thereof, between two parallel transverse lines simply either with or without the words “ not negotiable “ that addition shall be deemed a crossing and the cheque shall be deemed to be crossed generally.

2. Restrictive Crossing:

The Act provide the above two type crossing, Banking usage has developed yet another type of crossing called as “Restrictive Crossing “ This type of crossing includes the words like “A/c payee only” or “ Account payee only” between the transverse parallel lines.,

3. Not Negotiable Crossing:

A cheque bearing the ‘not negotiable crossing’ is transferable but it loses its element of negotiability this would mean that the transferee of such a cheque cannot acquire a better title than that of transferor. If the transferor has a defective titles, title of transferee will also be defective. Such a cheque is just like a stolen article, the holder of which does not get a better title than that of a thief even though he is a holder in due course. Such crossing does not restrict transferability but restricts negotiability-

Two transverse parallel lines across the face of the cheque are essential for general crossing.

Specimen of General Crossing

1	2	3	4
.			

ii) **Special Crossing** Section 124 of the Act defines “Special Crossing “as;

` “Where a cheque bears across its face an addition of the name of a banker, either with or without the words “not negotiable “ that addition shall be deemed a crossing and the cheque shall be deemed to be crossed, specially and to be crossed to that banker

Specimen of Special crossing

1	2	3	4
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Promissory note

“A promissory note “ is an instrument in writing (not being bank-note or a currency-note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument.

Essential elements of Promissory Note

Promissory note must contain the following essential elements:

- It must be in writing.
- It must contain a promise to pay.
- The promise to pay must be unconditional
- The maker must sign promissory note.
- The maker should be a certain person.

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- The payee must also be a certain person.
 - The amount must be certain.
 - Payment should be of money only.
 - Other formalities: The other formalities are not usually essential in the eyes of law. These are of (i) date (ii) place (iii) number (iv) consideration (v) inclusion of words “value received “

Rs 1,000

Karachi

On demand, I promise to pay Aslam or order a sum of rupees one thousand, for value received.

To,

Sh.Aslam

Nazimabad

Karachi

Signature of Mr. Ali

Stamp

Parties to a pro note

There are only two parties to a pro note:

Drawer:

The person who makes the note is called drawer. He is the debtor and promises to pay the borrowed money. In the above example, Mr. Ali is the drawer.

Payee:

It is the party to whom the promise is made. He is the creditor. In the above example, Mr. Aslam is the payee.

KINDS OF PROMISSORY NOTE

KINDS BY TIME:

Sight pro note:

This type of note is payable on demand or at sight.

Time pro note:

This type of note is made for a specified period of time and it becomes payable after the expiry of that time.

KINDS BY LIABILITY:

Single pro note:

When the maker of the note is only one and makes only himself liable to pay off the sum of money, it is called single promissory note.

Joint Pro note:

When there are two or more makers of a pro note, such a written promise is known as joint pro note. In this type of note, two or more persons are jointly liable to pay off the borrowed money.

Bill of exchange

A “bill of exchange “ is an instrument in writing containing unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or the order of a certain person or to the bearer of the instrument.

A bill of exchange is written by the creditor and accepted by debtor, usually there are three parties to a bill of exchange viz, the drawer, the drawee and the payee. Unlike a pronote, in a bill of exchange the drawer may himself be the payee.

The maker of a bill of exchange or cheque is called “drawer” the person thereby directed to pay is called the “drawee”, the person thereby directed to pay is called drawee the person named in the instrument , to whom or to whose order the money is by the instrument directed to be paid, is called the payee.

Essential elements of a bill of exchange

The essential characteristics of a bill exchange may be summarized as follows:

1. It must be in writing
2. It must contain an order to pay money only.
3. The order must be unconditional.
4. It must be signed by the drawer.
5. The drawer, drawee and payee must be certain
6. The sum payable must also be certain.
7. It should be properly stamped.
8. It may be made payable on demand or after a certain period of time.

Specimen of Bill of Exchange

Rs 1,000
September 3,2001
Three months after date pay to Aslam or order a
Sum of rupees one thousand only for value received.

Ali

Thandi Sarak,

Hyderabad.

Sd/-Aslam

Karachi

Stamp

Parties to a Bill of exchange

There are following parties to a bill of exchange:

Drawer:

The person who makes the bill of exchange is called drawer. He is the creditor or seller and orders the borrower to pay the borrowed money. In the above example, Mr. Aslam is the drawer.

Drawee:

It is the party to whom the bill of exchange is made. He is the buyer or debtor. In the above example, Mr. Ali is the payee.

Payee:

The person who has to receive the amount of the bill of exchange is called payee. The drawer or maker may receive the amount himself or order the drawee to give the money to someone else.

Acceptor:

The person who accepts the bill to pay is called acceptor. It is generally the debtor or drawee or an agent of drawee or a banker.

Holder:

The person who physically possesses the bill is called holder. He may be a drawer, creditor, bearer or payee.

Holder in due course:

It is the party who rightly possesses the bill. He in good faith, takes it as complete, regular and without the knowledge of its previous dishonor.

Endorser:

The person who transfers the right of ownership of the bill to some other party is called endorser. He may be drawer or holder.

Endorsee:

To whom the right of ownership is transferred is called endorsee.

Types of bill of exchange

There are following types of bill of exchange:

KINDS BY PLACE:

Bills can be classied on the basis of place

Inland bill:

The bill which is used within a country are called inland bills. If the drawer and drawee are in the same country and payee is in another country, the bill will remain an inland bill.

Foreign bill:

When the drawer and drawee are in different countries, the bill is said to be a foreign bill.

KINDS BY TIME:**Demand or sight bill:**

The bill which is payable on demand or at sight is called demand or sight bill. It does not contain a specific time for payment.

Time or Usance bill:

It is issued for a specified period of time and is payable after that date. Three grace days are allowed after the fixed date and if it remains unpaid, it is considered to be dishonored.

KINDS BY DOCUMENTS:

Documentary bill:

Such bills carry documents with them like railway receipts, insurance receipts etc. They are further divided into two kinds:

Documentary bill against payment:

These bills are only paid when the necessary documents are issued and presented to the competent authority.

Documentary bill against acceptance:

Such bills are only accepted when the documents are realized by the drawer.

Clean or non-documentary bills:

When a bill is drawn or accepted without being attached with the documents, it is called non-documentary or clean bill.

KIND BY PAYMENT:

Bearer bill:

These bills are payable to any person who bears or carries them.

Order bill:

The payment of such bills is restricted to the person whose name is written as payee. He may, however, endorse it to someone else.

OTHER KINDS:

Trade bill:

It is an ordinary and most common type of bill used in business transactions. It is drawn by the seller against the buyer of goods.

Accommodation bill:

This is drawn to borrow certain sum of money. It is not the result of a business transaction. Its main objective is to accommodate the drawer.

Bank bill:

It is drawn on the bank by a bank.

Dishonor of bill of exchange

When the bill of exchange is not accepted or not paid on maturity, it is said to be dishonored.

A bill may be dishonored on two grounds:

1. Dishonour by non-acceptance
2. Dishonour by non-payment

Dishonour by non-acceptance

When the drawee refuses to accept the bill within 24 hours of its receipt, the bill is deemed to be dishonored.

Dishonor by non-payment

If the drawee does not pay the bill on maturity and even after 3 days of grace period, the bill is considered as dishonored.

NOTING AND PROTESTING:

When a bill has been dishonored by non-payment or non –acceptance, the drawer may sue the drawee . It is sometimes necessary to secure an official evidence or proof of dishonor. For this purpose noting and protesting is done. When the bill is dishonored, the drawer goes to a notary public and gives him the bill. This notary public again presents it to the drawee and if he still refuses to pay or accept, he records a note in his register. The specimen of noting is given below:

Specimen of noting

Reference to page in Notary's register	_____
Date of presentation and dishonour	_____
Reason for dishonour	_____
Date of noting	_____
Notary's charge	_____
Sd- _____	
Notary Public	

Protesting:

Protesting means that, the notary public issues a formal certificate to the drawer and certifies that the bill has been dishonored.

Distinction between bill of exchange and Promissory

Parties

In a pro note, there are two parties – the maker and the payee. But in a bill of exchange there are three parties; the drawer, the drawee and the payee. However the drawer and the payee may be the same person in a bill of exchange.

Promise 'and Order'

A note contains an unconditional promise by the maker to pay to the payee or his order. In a bill however, there is an unconditional order to the drawee to pay to the payee or his order.

Acceptance

Maker of a promissory note is the person liable to pay. Therefore once he has signed it. He is not required to accept it. But a bill of exchange payable after sight requires acceptance for payment.

Notice of dishonor

Holder of a Bill must give notice to all prior parties including drawers and endorsers when it is dishonored either by non-acceptance or by non-payment. But if promissory note is dishonored, no such notice is necessary.

Protest

Foreign bills must be protested for dishonor when such protest is required to be made by the law of the country where these are drawn. But no such protest is required in case of a note.

A note cannot be made payable to the maker himself as the maker himself is the originator of it and promises to pay on it but in a bill the drawer and payee or drawee and payee may be the same person.

Copies

Foreign bills are made in set. Normally three copies are prepared, while only one copy is drawn in case of a foreign promissory note.

Distinction between a bill of exchange and a cheque**Drawee**

A cheque is always drawn on a banker while a bill may be drawn on anyone including a banker.

Payment

A cheque is always payable on demand while a bill of exchange may either be payable on demand or after the expiry of a definite period.

Days of grace

Three days of grace are allowed on a bill of exchange which is payable after a certain period of time. No such grace is given in case of cheques.

Acceptance

A bill of exchange requires acceptance of the drawee whereas a cheque does not require any acceptance.

Bearer

A cheque can be made payable to bearer but a bill of exchange is payable on demand and cannot be made payable to bearer.

Notice of Dishonour

Notice of dishonour of a bill is necessary. No such notice is required in the case of a cheque.

Stopping the payment

Payment of a cheque can be stopped by the customer but a bill of exchange once accepted cannot be countermanded.

Crossing

A cheque may be crossed but a bill of exchange can't be

Stamp

A bill of exchange requires stamp but cheques do not require any stamp.

Endorsement

When the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiations on the back or face thereof or on a slip of paper annexed thereto, or so signs for the same purpose a stamped paper intended to be completed as a negotiable instrument, he is said to endorse the same and is called the endorser.

Endorsement thus means writing of a person's name on the back of an instrument for the purpose of negotiation.

Essential of a valid endorsement are:

1. It must be on the face or back of the instrument.
2. It must be signed by the payee in exact spelling as appearing on the face of the instrument.
3. It should be in ink. Endorsements in pencil etc, are usually not accepted.
4. No prefix or suffix to the name of the endorsees should be included in the endorsement.
5. Endorsement must be completed by delivery of the instrument.

Type of Endorsement**Essential of a valid endorsement**

If the endorser of an instrument signs his name only on the instrument, the endorsement is said to be blank. [Sec. 16 (1)] such an endorsement does not specify the name of endorsee. As such the instrument becomes payable to bearer even though originally it was payable to orders.

Special or Full Endorsement

If the endorser of an instrument adds a direction to pay the amount mentioned in the instrument to, or to the order of specified person the endorsement is said to be in full. A blank endorsement can be converted into full by any holder of a negotiable instrument.

Restrictive Endorsement:

An endorsement is said to be restrictive when it restricts or prohibits the further negotiability of the instrument.

Partial Endorsement

When an endorsement purports to transfer to the endorsee a part of the amount of the instrument the endorsement is said to be partial. It does not operate as a negotiation of the instrument.

Conditional Endorsement

An endorsement is conditional if it limits or negatives the liability of the endorser. It is also called as qualified endorsement.

Sans Recourse endorsement:

When the endorser gets rid of the responsibility of paying the instrument in case of its dishonor, it is called Sans Recourse endorsement.

Sans frais endorsement:

When the endorser gets rid of the liability of paying the charges incurred during the process of dishonor of the instrument, it is called sans frais endorsement.

CENTRAL BANK**DEFINITION**

A central bank is the most important institution responsible for safeguarding the financial stability of the country. It is the one bank acting as the leader of the money market. In the words of **R.P Kent**, "Central Bank is an institution charged with the responsibility of managing the entire monetary and banking affairs of the country in the national interest".

A central bank is responsible for regulating the supply of money and credit in the economy for which it is given special powers by the state. Unlike the commercial banks, it is guided by the motive of economic welfare of the people and not by the profit motive. It holds the ultimate reserves of the action, acts as a banker's bank and a banker to the state.

FUNCTIONS

In spite of controversies regarding the functions of a central bank, the functions which are invariably performed by almost all central banks of the world are: -

Monopoly of note issue

In the early periods of banking development, almost every bank enjoyed the right of note issue. They worked on profit motive and hence notes were frequently over-issued resulting in inflation and other serious financial consequences. The Government therefore, had to exercise strict control over note issue. With the passage of time, this function was entrusted to the Central bank of the country. Now in almost every country the central bank enjoys the monopoly of note issue. Such monopoly is of great importance because:

1. It gives uniformity to the system
2. Since the notes are backed by reserves, confidence in the minds of the people is inspired that the basis of note issue is sound.
3. The system is made elastic so that note issue can be expanded and contracted according to needs.
4. Creation of credit by commercial banks can be controlled since it has to be in accordance with the cash reserve of the central bank.

Banker to the state

All the balance of the Government of the country is kept with the central bank without taking any interest thereon. On the other hand, the Central Bank performs numerous functions in the capacity of banker to the Government like.

1. The bank maintains the receipt and expenditure account of the central and Provincial Government in absence of the Treasury.
2. The bank acts as fiscal agent of the Government.
3. It advises the Government in matters relating to currency, change and finance.
4. It also manages the public debt on behalf of the Government.
5. It affords short-term loans to the Government to meet current obligations against treasury bills and Government securities.

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6. Helps in transfer of Government funds from one part of the country to another.
 7. Purchases and sells securities on behalf of the Government.

Banker's Bank

The central bank is the parent bank of all other banks. In this capacity the central bank performs three important functions.

Custodian of the cash reserves

Almost all commercial banks keep part of their cash balance as deposits with the central bank, either because of convention or because of legal compulsion. This practice has many advantages e.g.

- a. It economizes cash
- b. It gives central bank control over credit policies of the member banks
- c. Enables commercial banks to increase their reserves merely by discounting bills with the central bank in times of need (instead of depending on their own reserves), which it does out of the reserves.

Lender of the last resort

The central bank in the capacity of lender of the last resort helps commercial banks to enhance their exhausted funds and to supplement their needs by way of its rediscounting operations (first class trade bills and agricultural bills). This gives increased liquidity and elasticity to the assets of the commercial bank.

Clearing and Settlement:

Since all commercial banks keep reserves with the central bank settlement of accounts between them can easily be made by means of passing debit or credit entries in the books of the central bank against the respective banks. This method of settling accounts is economical as regards the use of cash. It enables the central bank to know the state of liquidity of the commercial banks with regards to their assets. This in turn is helpful for credit control.

Credit Control

Probably the most important function performed by a central bank is that of controlling the credit operations of commercial banks.

Control of credit means the regulations and control of bank advances. Stimulating them in time of need and curbing undesirable tendencies of flow of credit. Nature and volume of bank advances have a vital bearing on the supply of money on which elements like value of money and stability of price depends. This keeping an effective check on credit circulation essential in order to:

1. Save gold reserve against external and internal drains.
2. Maintain stability in the price level of the country.
3. Achieve stability in foreign exchange.
4. Maintain level of production and employment in the country.

Regulation of Foreign exchange

Central banks, maintain gold and foreign currencies (as the case may be) as a reserve against note issue and also to meet any adverse balance of payment with any other country. It is also responsible to maintain the rate of exchange fixed by the Government, to control the inflow and outflow of foreign currency and impose restricts on resistance to other countries or import of superficial goods.

Miscellaneous functions

In addition to the above functions, most of the central banks perform other functions like:

1. The Central bank maintains agricultural credit department to give a special assistance to the agriculture sector.
2. They act as agents of international institutions like the IMF and World Bank.
3. In many cases the Central Bank maintains departments of research and statistics and public information of monetary and banking nature for public help.

DIFFERENCE BETWEEN CENTRAL AND COMMERCIAL BANK

There are some fundamental differences between them:

CENTRAL BANKS	COMMERCIAL BANKS
A central bank is the principal banking institution of the country, entrusted with special responsibility of maintaining economic stability.	A commercial bank is a dealer in short-term credit. It accepts deposits from the people and finances the temporary needs of customers to commence industry.
Profit making is not the objective of central banks, although, they do earn profits.	The principal aim of a commercial bank is to make large amounts of profits.
The central bank is owned and controlled by the Government.	A commercial bank is generally owned, managed and controlled by private citizens working under framework of the country's law.
The central bank is the non-competing unique institution.	The commercial banks are in constant competition with each other.
There is only one central bank in a country.	There are many commercial banks operating in a country on a competitive basis.
The central bank is the only agency in a country entrusted with the power of issuance of notes.	The commercial banks do not have the power of issuing notes.
The central banks are the lender of the money market.	The commercial banks are just its sub-ordinates.
The central bank is not generally permitted to take direct interest in other commercial concerns.	A commercial bank can have a direct interest in other commercial or industrial concerns through investment.
The central bank cannot have a foreign	A commercial bank may have hundreds of

branch.	foreign branches.
The central bank is mainly the banker for Government.	The commercial bank may or may not be so.

Reserve Bank of India (RBI)

What Is the Reserve Bank of India (RBI)

The Reserve Bank of India (RBI) is the central bank of India, Which was established on April.1, 1935, under the Reserve Bank of India Act. The Reserve Bank of India uses monetary policy to create financial stability in India, and it is charged with regulating the country's currency and credit systems.

Functions of Reserve Bank

1. Issue of Notes – The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (Which is issued by the Ministry of Finance).

2. Bankers to the Government - The Second importance function of the Reserve Bank is to act as the Banker, Agent and Adviser to the Government of India and States. It performs all the banking functions of the state and central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.

3. Banker's Bank: The Reserve Bank perform the same functions for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.

4. Controller of the Credit: The RBI undertakes the responsibility of controlling credit created by commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country. When RBI observe that the economy has sufficient money supply and it may cause an inflationary situation in the country then it squeezes the money supply and it may cause an inflationary situation in the country then it squeezes the money supply through its tight **Monetary policy** and vice versa.

5. Custodian of Foreign Reserves: For the purpose of keeping the foreign exchange rates stable, the Reserve Bank buys and sells foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply decreases in the economy and vice- versa.

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

7. Central Clearance and Accounts Settlement: Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank.

Controller of Credit and Bank Rate:

Since credit plays a predominant part in the settlement of monetary and business transactions of all kinds the State bank of Pakistan act confers extensive powers on the central bank of Pakistan as the controller of credit under section 17.

Since 9A of the state bank of Pakistan act, 1956, has empowered the state bank to formulate and execute policies to promote the expansion of banking and credit facilities in Pakistan. Bank has the legal obligation of maintaining expert staff to study various aspects of agricultural and industrial credit so that when the Federal and provincial Governments, co-operative banks and other banking institutions consult the bank necessary guidance is provided to them. In this context the bank established a Rural Credit Fund in 1961. Which is credited by the appropriations from the profits of the bank in accordance with section 17-A of the Act.

According to section 22 of these state bank of Pakistan act, 1956 "Bank Rate" is the standard rate at which the state bank is prepared to buy or rediscount the bills of exchange or other commercial papers eligible for purchase. Since bank rate is an important instrument of quantitative control of credit, section 22 of the act prescribed that the state bank shall make the bank rate publish from time to time.

In addition to the conventional instruments of credit control such as bank rate and open – market operations the state bank has been using other weapons also such as credit rationing, regulation of margin requirements, lowering or raising of minimum cash reserve and "direct action" in the form of coercive measures against any offending bank or any other financial institution.

CREDIT CONTROL

Meaning of credit control:

Credit control (monetary policy) is that branch of economics which is concerned with the regulation of the availability (supply), cost and direction of credit.

METHODS OF CREDIT CONTROL

Credit money provides purchasing power just as paper money or metallic money does. Addition of purchasing power though credit money has a vital bearing on the state of economy. In order to keep check on the overall supply of money in the economy, it becomes essential on the part of the Central Bank to control the nature and volume of bank advances. For this, it is called "The Controller of credit". Following are the principal methods of credit control used by the central banks in the modern times: -

QUANTITATIVE METHODS

The Discount Rate or Bank Rate Policy

The discounting rate is the rate at which the central bank of a country is willing to discount first class bills of exchange for its member banks. In other words, it is the rate at which central bank is willing to lend for short periods. Under this method a central bank controls credit by means of fluctuating its discount rate, which is followed by corresponding changes in all local money rates.

In case of inflation, the central bank raises its discount rates. This tempts the commercial banks to increase their own rates of lending to the people. This discourages the

people to borrow and bank advances are reduced. In case of deflation, central bank decreases, its discount rate. This causes the cash reserves of commercial banks to increase and now they will be willing to lend to the public at lower rates. The supply of money will increase.

Open Market Operation

Under this method the central bank expands or contracts the lending capability of the commercial banks to make advances or in other words credit money in the economy by buying and selling Government securities (short term as well as long term) in the open market at attractive rates to the bank.

When supply of money has to be contracted, the central bank offers to sell Government securities at attractive prices. The commercial banks buy them by drawing cheques against themselves. This reduces their cash reserves and they have to reduce their lending. However, when supply of money is to be expanded, central bank offers good price for these securities and makes payment by issuing cheques against it to the commercial banks and enables them to expand credit.

This method of credit control has attained great importance during the last 2 or 3 decades.

Changing the Legal Reserve Ratio:

This method has been recently devised for increasing or decreasing supply of credit money by commercial banks. All commercial banks keep part of their reserves as deposits with the central bank either because of compulsion or because of legal convention. Under this method, when the central bank intends to contract the supply of money, all commercial banks are asked to increase their cash reserve deposits with the central bank. This contracts their lending capacity. The decrease in cash reserves acts in the opposite direction.

Credit Rationing

Rationing of credit is an instrument for controlling credit adopted by the central banks in emergencies and period of monetary stringencies. Under this policy, the central bank imposes restriction on grants of loans by commercial banks in the shape of overdraft. The central bank also restricts the discount of bills maturing after a short period. This policy is not practiced in normal economic conditions.

QUALITATIVE METHODS

Moral Persuasion

Moral persuasion is a polite and gentle method to achieve tangible results in the long run in the direction of quantitative control of credit. Under this method the central bank does not have excessive statutory compulsion but requests and persuades member banks to refrain from increasing their loans for speculation of non – essential activities.

Publicity

By way of issuing weekly statistics, periodicals, reviews of the money market conditions, trade and industry, public finance, statement of assets and liabilities, the purpose of credit control is achieved, as they reveal the prospect of investment etc.

Direct Action

In case of failure of different instruments of credit control, the central bank takes direct actions. This implies coercive means like refusal on the part of central bank to rediscount for

banks whose credit policy is not in accordance with the wishes of the central bank or whose borrowings from central bank are excessive in relation to their capital and reserves.

FORMS OF LENDING

Bankers in Pakistan generally lend in the form of cash finance, overdrafts and loans.

Cash Finance (Cash Credit)

This is very common form of borrowing by commercial and industrial concerns, and is made available either against pledge or hypothecation of goods, produce or merchandise. Borrower money from the banker up to a certain limit borrower prefer due to the facility of paying markup/ service charges only on the amount he actually utilize.

If the borrower does not utilize the full limit, the banker, has to lose return on the un-utilized amount. In order to offset this loss, the banker may provide for a suitable clause in the cash finance agreement, according to which the borrower has to pay markup/ service charged on at least one-half or one quarter of the amount of cash finance limit allowed to him, even when he does not utilize that amount.

Overdraft

When a borrower requires temporary accommodation, his bank allowed withdrawals on his account in excess of the balance, which the borrowing customer has in credit, and an overdraft thus occurs. When it is against collateral securities, it is called a "Secured Overdraft", and when the borrowing customer cannot offer any collateral security except his personal security, the accommodation is called a "Clean overdraft". The borrowing customer is in an advantageous position in an overdraft, because he has to pay service charges only on the balance outstanding against him.

The main difference between a cash finance and an overdraft lies in the fact that cash finance is a bank finance used for a long term by commercial and industrial concerns on regular basis, while an overdraft is a temporary accommodation occasionally resorted to.

UNIT – II

TYPES OF DEPOSITS

DEPOSITS:

THE LIFE-BLOOD OF A BANK

In modern times, very few business enterprises are carried out solely with the capital of the owners. Borrowing funds from different sources has become an essential feature of today's business enterprises. But in the case of a bank, borrowing funds from outside parties is all the more vital because the entire banking system is based on it. The borrowed capital of bank is much greater than its own capital. Bank's borrowing is mostly in the form of deposits. These deposits are lent out to different parties. The larger the difference between the rate at which these deposits are borrowed and the rate at which they are lent out, the greater will be the profit margin of the bank. Furthermore, the larger the deposits the larger will be the funds available for employment larger the funds lent out the greater will be the return earned on them; and greater the amount of return the greater will be the profits of the bank. It is because of this interrelated relationship that deposits are referred to as the "life-blood" of a bank.

To receive deposits is a basic function of all commercial banks. Commercial banks do not receive these deposits for safekeeping purpose only, but they accept deposits as debts. When a bank receives a deposit from a customer the relationship of a debtor and a creditor is established whereby the customer becomes the creditor, and the bank a debtor. When the bank receives the amount of deposit as a debtor, it becomes the owner of it. It may, therefore, use it, as it deems appropriate. But there is an implicit agreement that the amount owned would be paid back by the bank to the depositor on demand or after a specified time.

NATURE OF DEPOSITS

Bank Deposits can be broadly classified as Current Deposits, Fixed Deposits or Time Deposits and Savings Deposits.

This classification is based on the duration and purpose for which the deposits are to be kept at the bank before they can be withdrawn by the depositors.

CURRENT DEPOSITS

These are payable to the customer whenever they are demanded. When a banker accepts a demand deposit, he incurs the obligation of paying all cheques etc. drawn against him to the extent of the balance in the account. Because of their nature, these deposits are treated as current liabilities by the bank. Bankers in India do not allow any profit on these deposits, and customers are required to maintain a minimum balance, failing which incidental charges are deducted from such accounts. This is because the depositors may withdraw Current Deposits at any time, and as such the bank is not entirely free to employ such deposits.

FIXED OR TERM DEPOSITS

The deposits that can be withdrawn after a specified period of time are referred to as Fixed or Term Deposits. The period for which the bank keeps these deposits ordinarily varies from three months to five years in accordance with the agreement made between the customer and the banker. Interest/ return is paid to the depositors on all Fixed or Time Deposits, and the rate of interest/ return varies with the duration for which the amount is kept with the banker.

PAYMENT OF FIXED /TERM DEPOSITS BEFORE MATURITY

Sometimes the bankers oblige the customer by allowing the withdrawal of Fixed/ Term Deposits before their due date; but this is not a good practice and impairs the banker's own

cash resources. In such situation the customers forego the interest/return accrued on the deposit, or borrow the required money again against the security of his Fixed/ Term Deposits at a rate of interest/ service charge which is generally 2 per cent higher than the rate allowed on the deposits.

FIXED OR TERM DEPOSITS IN JOINT NAMES:

Fixed/Term Deposits may be in the joint names of two or more persons. The payment to either of them will into discharge the banker, unless authorized by all the joint depositors.

SAVINGS DEPOSITS

The main objects of the savings deposits is to encourage thrift among people of small means like children, married and household women, who can deposit only a very small amount at a time.

In Pakistan a Savings Deposits Account can be opened with a very small amount of money, and the depositors is issued a chequebook for withdrawals. Profit is paid at a flexible rate calculated on six-monthly basis under the Interest- Free Banking System. There is no restriction on the withdrawals from the deposit accounts but the amount of money withdrawn is deleted from the amount to be taken for calculation of products for assessment of profit to be paid to the account holder. It discourages unnecessary withdrawals from the deposits.

WORKING CAPITAL

In ordinary usage, the term funds usually means cash. Accountants and financial executives, however, think of “funds” in a broader sense. They view the funds available to a company as its working capital the difference between current assets and current liabilities.

Short-term credit is often used as a substitute for cash; notes and accounts payable as well as various accrued liabilities are used to meet the short – term financing needs of a business. Current assets are constantly being converted into cash, which is then used to pay current liabilities. The net amount of short-term liquid resources available to a business firm at any given time. Therefore, is represented by its working capital – the difference between current assets and current liabilities. This explains why it is natural to think of working capital as a “fund” of liquid resources on hand at any given time.

If the amount of working capital increased during a given fiscal period, this means that more working capital was generated than was used for various business purposes; if a decrease in working capital occurred, the reverse is true. One of the key purposes of the statement of changes in financial position is to explain fully the increase or decrease in working capital during a fiscal period. This is done by showing where working capital originated and how it was used.

SOURCES AND USES OF WORKING CAPITAL

Any transaction that increases the amount of working capital is a source of working capital. For example, the sale of merchandise at a price greater than its cost is a source of working capital, because the increase in cash or receivable from the sale is greater than the decreases in inventories.

Any transaction that decreases working capital is a use of working capital. For example, either incurring a current liability to acquire a non-current asset or using cash to pay expenses represents a decrease in working capital.

On the other hand, some transactions affect current assets or current liabilities but do not change the amount of working capital. For example the collection of an account receivable (which increase cash and decrease and account receivable by an equal amount) is not a source

of working capital. Similarly, the payment of an account payable (which decreases cash and decreases an account payable by an equal amount) does not change the amount of working capital.

The principal sources and uses of working capital are listed below

SOURCES OF WORKING CAPITAL

Current Operations

If the inflow of funds from sales exceeds the outflow of funds to cover the cost of merchandise purchases and expenses of doing business, current operations will provide a net source of funds. If the inflow of funds from sales is less than these outflows, operations will result in a net use of funds. Not all expenses require the use of funds in the current period; therefore, the amount of funds provided by operations is not the same as the amount of net income earned during the period. Differences between the amount of working capital provided by operations and the amount of net income will be discussed later in the chapter.

In the long run, operations must result in net sources of funds if the business is to survive. A business cannot obtain funds through other sources indefinitely if those funds will only be consumed by business operations.

Sale of Non-current Assets

A business may obtain working capital by selling noncurrent assets, such as plant and equipment or long-term investment, in exchange for current assets. As long as current assets are received, the sale is a source of funds regardless of whether the noncurrent assets are sold at a gain or a loss. For example, assume that the company sells land, which cost \$40,000 for \$30,000 in cash. Although the land was sold at a loss, the company has increased its current assets by \$30,000. Thus, the transaction is a source of working capital.

Long Term Borrowing

Long-term borrowing, such as issuing bonds payable, results in an increase in current assets, thereby increasing working capital. Short term borrowing, however, does not increase working capital. When a company borrows cash by signing a short-term note payable, working capital is unchanged because the increase in current assets is offset by an increase in current liabilities of the same amount.

Issuing Additional Shares of Stock

The sale of capital stock results in an inflow of current assets, thereby increasing working capital. In a similar manner, additional investments of current assets by owners represent sources of funds to single proprietorships and partnerships.

USES OF WORKING CAPITAL

Declaration of Cash Dividends

The declaration of a cash dividend results in a current liability (dividend payable) and is therefore a use of funds. Note that it is the declaration of the dividend, rather than the payment of the dividend, which is the use of funds. Actual payment of the dividend reduces current assets and current liabilities by the same amount and thus has no effect upon the amount of working capital.

Purchase of Non-current Assets

The purchase of noncurrent assets, such as a plant and equipment, usually reduces current assets or increases current liabilities. In either case, working capital is reduced. Special

situations in which noncurrent assets are acquired in exchange for other noncurrent assets or long-term liabilities are discussed later in this chapter.

Repayment of Long Term Debt

Working capital is decrease when current assets are used to repay long- long-term debt. However, repayment of short-term debt is not a use of funds, since current assets and current liabilities decrease by the same amount.

Repurchase Of Outstanding Stock

When cash is paid out to repurchase outstanding shares of stock, working capital is reduced.

UNIT - III

LOANS AND ADVANCES

Loans

When a customer borrows from a banker a fixed amount repayable either in periodic installments or in lump sum at a fixed future time, it is called a “loan” against collateral securities they are called “secured loans”; when no collateral security is taken they are called clean loans.

Though these are term – finances yet all bankers’ finances are payable generally on demand.

Purchases and Discounting of Bills

Bankers in purchase and discount bills of exchange as a part of financing function. They also purchase out-station cheques of reliable customers. When bills of exchange are accompanied by documents of title to goods, they are called “documentary bills of exchange”, otherwise “clean bills of exchange”. If a bill of exchange is payable on demand, it is Demand Bill, if otherwise, it is a “Usance Bill”. The bankers purchase Usance Bills of Exchange from reliable persons, and this is called “discounting a bill”. This arrangement, however, is not very common in all the countries

BANK LOANS AND ADVANCES

PRINCIPLES OF LENDING

Basically there are five principles, which must be duly observed while advancing money to the borrowers:

1. Safety
2. Liquidity
3. Dispersal
4. Remuneration
5. Suitability

1. Safety

Bankers’ funds comprise mainly of money borrowed from numerous customers on various accounts. The banker must be very careful and ensure that his depositor’s money is advanced to safe hands where the risk of loss does not exist.

The elements of character, capacity and capital can help a banker in arriving at a conclusion regarding the safety of advances allowed by him.

Character:

It is the important factor in determining the safety of advance. Borrower’s character can indicate his intention to repay the advance, since his honesty and integrity is of primary importance. If the past record of the borrower shows that his integrity has been questionable, the banker should avoid him.

Capacity:

It is obligatory on the banker to ensure that his borrower is a person of character and has capacity enough to repay the money borrowed, including the interest thereon. Tell how successful a business has been in the past and what the future possibilities are. A business may not have vast financial resources, but with sound management he may make his business very profitable.

Capital:

Capital is the monetary base, because the money invested by the proprietor represents their faith in the business and its future.

Condition:

The position of the business of the customer in the industry and state of technology should be taken into account in this regard.

2. Liquidity

Liquidity means the possibilities of recovering the advances in emergency, because all the money borrowed by the customer is repayable in lump sum on demand. The banker must ensure that the money he is lending is not blocked for an undue loan time, and that the borrowers are in such a financial position as to pay back the entire amount outstanding against them on a short notice.

If the borrower asks for an advance for the purchase of fixed assets, the banker should refuse because it shall not be possible for him to repay when the banker wants his customer to repay the amount.

3. Dispersal

The dispersal of the amount of advances should be broadly based so that a large number of borrowing customers may benefit from the banker's funds. The banker must ensure that his funds are not invested in specific sectors. He advances them to a wide range of sector. Dispersal of advances is very necessary from the point of security as well, because it reduces the risk of recovery while something goes wrong in one particular sector or in one field.

4. Income generating ability

The banker needs sufficient earnings to meet the following.

- a. Interest payable to the money deposited with him
- b. Salaries and fringe benefits payable to the staff members.
- c. Overhead expenses and depreciation and maintenance of the fixed assets of the bank;
- d. An adequate sum to meet possible losses;
- e. Provisions for a reserve fund meet unforeseen contingencies;
- f. Payment of dividends to the shareholders.

A major portion of the banker's earnings come from the interest charged on the money borrowed by the customers. The fixation of the rate of interest to be charged for advances of various classes depend on the type of security offered to him and on the duration for which the advance is allowed. The banker may consider charging a lower rate of interest.

In order to meet his above-mentioned expenses the banker runs at great risk. He should not lend his funds to a borrower with whom remuneration may be much, but also equally risky. On the other hand bankers should prefer a borrower who is willing to offer a higher rate of interest on a comparatively lesser risk.

5. Suitability

It means that advance should be allowed not only to the carefully selected and suitable borrowers, but also in keeping with the overall national development plans chalked out by the authorities concerned. Ensure that the lending is for a purpose in conformity with the current national credit policy laid down by the central bank of the country.

Since the bankers mainly provide short-term working capital to commerce and industry they should see that their lendings solve the borrower's financial problems they should not assume the role of a partner in the business.

6.Amount of finance:

Funds are provided for a specified period of time. Long run loan are exposed to greater risks. Therefore, time should be taken into account while giving loans.

7.Security/collateral (if loan is secured):

If the loans are provided against a security, the loan is called secured loan. Otherwise it is called unsecured or clean loan. The security may include property documents, insurance documents, cash, business premises, raw material, finished goods etc. The banker should keep in mind the security margin on each type of security. A survey of security may also be helpful in avoiding default.

Commercial Letters of Credit

The Article 2 defines a "Letter of Credit" in the following terms:
Letter(s) of credit mean any arrangement, however named or described, whereby a bank (the issuing bank), acting at the request and on the instructions of a customer (the applicant for the credit), or on its own behalf.

- (i) Is to make payment to or to the order of a third party (the beneficiary), or is to pay or accept bills of exchange (drafts) drawn by the beneficiary.
- (ii) Authorizes another bank to effect such payment, or to pay accept or negotiate such bills of exchange (drafts), or
- (iii) Authorizes another bank to negotiate, against stipulated documents, provided that the terms and conditions of the credit are complied with.

Classes of Credit:

There may be confirmed or unconfirmed credits. The credit is called "confirmed" when the importer confirms to the exporter the terms of credit through the addressee banker. In such credits the confirming banker becomes liable for payment in terms of the letter of credit. The following are the other classes of credit.

Documentary Letter of Credit:

A documentary Letter of Credit may be defined as an authority issued by the opening bank on behalf of the importer in favor of the exporter with the stipulation that the drafts drawn thereunder will be duly honored, provided that the terms and conditions are mentioned therein are duly complied with.

Revocable and Irrevocable Letters of Credit:

A "revocable credit" can be amended or cancelled by the openers before the expiry date of the Letter of Credit. However, once the negotiating bank has negotiated the documents strictly in terms and conditions of the credit, this credit cannot be revoked.

An "irrevocable credit" cannot be altered or cancelled without the consent of all the parties i.e. the opener, the opening banker, the confirming banker, and the beneficiary. This credit becomes confirmed as soon as the advising bank at the request of the opening banker confirms the credit to the beneficiaries. In this way the exporter gets the double satisfaction of

receiving the payment for goods from the confirming banker, provided he submits the shipping documents, showing dispatch of goods to a place in Pakistan”.

Advantages of a Letter of Credit:

Following are some of the main advantages of a Letter of Credit.

1. Since a Letter of Credit is opened only for the importers, with established credit. The exporter is sure of receiving the price of his commodity.
2. An exporter may obtain necessary finance immediately on shipment under a Letter of Credit.
3. The importer does not run any risk about the payment before the receipt of goods, because, the payment under a Letter of Credit is made only against delivery of shipping documents to the opening bank or its agent or correspondent.
4. A letter of Credit may help the importer to meet his financial difficulties even before he receives the goods. He may approach his financier or banker and may obtain some finance against the Letters of Credit.
5. A Letter of Credit enables the exporter to obtain finances for the operation of the production or purchase even before shipment, because, the bankers may agree to advance money against goods, whether finished or in the process of manufacturing, as their sale and payment of sale price is fully assured.

UNIT – IV

MODES OF CHARGING SECURITY

MORTGAGE

“A mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, and existing or future debt, or the performance of an engagement which may rise to a pecuniary liability”. This definition further elaborates that “. The transferor is called a mortgagor, the transferee a mortgagee; the principal money and interest of which payment is secured for the time being and instrument (if any) by which the transfer is affected, is called a mortgage deed”.

ADVANCES AGAINST IMMOVABLE PROPERTY

A mortgage transfers the interest in the immovable property; and this transfer is actual. A mortgage cannot be created by a mere agreement to transfer the interest; but it can create a personal obligation.

The property in which the interest is being transferred must be a specific immovable property. A movable thing when fixed permanently to an immovable property becomes a part and parcel of it; and in law it is considered to be immovable.

The interest in the property should be transferred only to secure a debt. Therefore, if the object of a mortgage is not to secure a debt but to discharge a debt, it is not a mortgage.

There are a number of cooperative banks and banking unions, and above 28,000 primary agricultural and credit societies.

COOPERATIVE CREDIT SOCIETIES:

These are the societies that have been formed to promote thrift and self-help among its members belonging to groups of agriculturists, artisans and persons of limited means. They provide short-term finance to agriculturists, artisans and other members who might be in need of short term financing.

SPECIALIZED CREDIT INSTITUTION:

These institutions are generally Government – sponsored corporations, and provide medium and long-term finance to various sectors. Most of these institutions are players in the capital market in Pakistan.

SPECIALIZED FINANCIAL INSTITUTIONS

Specialized Credit Institutions – National

These institutions are Government – sponsored corporations. The immediate purpose of these institutions is to stimulate the development of economy of Pakistan by making capital, enterprise, and technical advice available to the private sector. Some of these credit institutions are discussed below:

Resources of the Corporation:

Pakistan Industrial Credit and Investment Corporation's resources comprise of its paid-up capital, long-term Government loans and credit from foreign Governments and international agencies.

Working of the Corporation:

The corporation lends money for a period of 07 to 15 years and charges interest at 8-½% to 12-½ % on Rupee loans and 10-½ % to 11-½ % on foreign currency loans. The money is

released as the project advances. In case of foreign currency loans the corporation makes payment directly to the suppliers abroad; and recoveries are made in semi – annual installments beginning six months to one year after the project has gone into operation.

PICIC prefers to finance industries based on local raw materials or those that are export – oriented or would result in import savings.

The corporation subjects every loan application to a close scrutiny so as to determine the feasibility of the project in terms of financial standing of the entrepreneurs, the capital structures of the projects, the technical layout and sales projects etc. The projects are also examined in the light of priorities set under the National Development Plan.

TYPES OF BUSINESS FUNDS

DIRECT FINANCING

Businesses can start up or expand by obtaining funds directly from households. One way to do so is by selling common stock to the public. Common stock is evidence of part ownership in a corporation; it entitles the owner to vote on certain corporate decisions and to share in any profits. A share of common stock is a financial asset to the owner and a financial liability to the issuer or corporation. A business can also obtain funds by issuing (selling) bonds. A bond is evidence that a promise has been made by a corporation to pay a specified amount of money in recognition of a loan to the business. The bond is a financial asset to the lender – owner and a financial liability (debt) to the borrower – corporation.

In both these examples, directly financing has occurred and businesses have borrowed directly from households. In turn, businesses use these savings funds to make purchase of plant, equipment, and inventory. Figure shows the process of direct financing. Markets have evolved to facilitate direct financing. Stocks and bonds are originally sold in primary

Ultimate Lenders	Financial Intermediaries	Ultimate Borrowers
- Households	- Depository financial institutions	- Households
- Businesses		- Businesses
- Governments	- Non-depository financial institutions	- Governments

The process of Financial Intermediation:

The process of financial intermediation is depicting here the different types of financial intermediaries. Note that ultimate lenders and ultimate borrowers are the same economic units – households, business, and Governments – but not necessarily the same individuals. Whereas individual households can be net lenders or borrowers, both as economic units, are net borrowers.

BUSINESS FUNDS

Securities:

A loan is an extension of credit, and a security is written evidence of the extension of a loan. Securities are exchanged in credit markets, and such markets facilitate economic growth. In fact, variations in the amount of credit in an economy may affect economic activity as much as variations in the money supply.

An extension of credit allows the borrowers to make expenditure sooner than otherwise; it also allows the lender to earn interest and to purchase more goods in the future. This transfer of purchasing power is an element that is common to all securities. Because all securities can substitute for each other, interest rate earned on the various securities will move up and down together as market conditions change.

If Mr. Ahmed wanted to borrow a sizable amount for a very long period of time, in principle he could find someone to make him a large loan. It is likely, however that he would find few willing to make such a loan. Those few that would be willing to extend credit would insist on a very high interest rate, because a good deal of uncertainty would exist.

Suppose, however, that it were possible for original lenders to sell individual parts of Mr. Ahmed's total debt obligation – to transfer the extension of credit – to a third party, such as Mr. Raheel. Indeed, suppose further that Johnson could resell and individual part of Mr. Ahmed's debt obligation – a security – to someone else, and so on. The net result of such sales and resells to the orbital securities issued to cover Mr. Ahmed's original total debt would be that many people would be extending smaller amounts of credit to Ahmed for shorter periods of time. The ability to resell securities, therefore, lowers the risk of credit extension and increases the liquidity of the security. By increasing the liquidity of securities, the ability to resell debt (or transfer credit extension) permits greater quantities of credit extension, facilitates trade, and lowers interest rates to borrowers.

Treasury Bonds:

Treasure bonds usually have a maturity of 10 years or more. They too, have a coupon trade of interest that is usually paid semiannually. The coupon rate is set by law.

All Treasury notes and bonds are issued in registered form; only bills are issued in bearer form. This means that, for notes and bonds the name and address of the current owner are registered with the Treasury, and any ownership change therefore must be recorded with the Treasury. The maturity payment on bills, in contrast, is made to the current holder of the bills.

State and Local Government Securities:

State and local Governments issued debt (borrow) in the form of state and local bonds. Their chief characteristic is that they are tax-exempt; that is, interest income earned on them is exempt from federal income taxes.

Asset – Backed Securities:

Securities that represent shares of the market value of a pooled grouping of assets are known as asset-backed securities. An important type of asset-backed security is the mortgage-backed security, which is a share in the value of a group of home mortgages.

SOURCES OF CREDITOR'S FUNDS

THE BANKER'S FUNDS

The funds available to a banker for the purpose of his business comprise of the following.

1. Banker's own paid-up capital, the reserve fund, and liquid assets.
2. Money received from depositors in current, fixed and time deposits.

BANKER'S CAPITAL

The amount with which a banking company in Pakistan has been registered is called the nominal or authorized capital. It is further divided into paid-up and subscribed capital. The paid-up capital is that portion of capital, which the banking company has actually received from the public, while the subscribed capital is that part of the issued capital, which is applied for by the public, including the shares issued to the vendors or promoters.

THE RESERVE FUND:

The fund consists of accumulated un-divided trading profits set aside to provide for contingencies and any unusual call upon the bank's resources.

LIQUID ASSETS:

According to the Section 29(1) of the banking Companies Ordinance, 1962, every bank is under legal obligation to maintain liquid assets in Pakistan.

This amount should be at least 35 per cent of the total time and demand liabilities in Pakistan, as per latest regulations nowadays. These liquids assets include as in hand and balances with the Reserve Bank of India money at call and short notice; bills discounted; gold; special deposits with the State Bank of Pakistan and un-encumbered Government securities; debentures in shape of semi-Government agencies guaranteed by the Central or Provincial Government.

UNIT - V

ELECTRONIC BANKING

Electronic Banking: (Meaning)

E-Banking is the process by a customer can perform banking transactions electronically without physically visiting the branch or financial institutions

Traditional Banking Vs. Internet Banking

- ▶ In **traditional banking**, the customer has to visit the branch of the bank in person to perform the basic banking operations viz., account enquiry, funds transfer, cash withdrawing etc.,
- ▶ **E-banking** enables the customers to perform the basic banking transactions by sitting at their homes or at offices through a desktop or laptop round the clock globally through electronic media.

This is called any time, any where banking.

The customers can access the banks' website for viewing their account details and perform the transactions as per their requirements.

Customers can make use of these services with no restricted banking hours, no queues, no tellers and no waiting.

TYPES OF E-BANKING

- **Online Banking**
- **Phone Banking**
- **Electronic Payment Services - E Cheques**
- **Real Time Gross Settlement (RTGS)**

- **Electronic Funds Transfer (EFT)**
- **Electronic Clearing Service (ECS)**
- **Automatic Teller Machine (ATM)**
- **Point of Sale Terminal**
- **Tele Banking**
- **Electronic Data Interchange**

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Advantages & Disadvantages of E-banking

Advantages

- ▶ Better rates
- ▶ Ease of use
- ▶ Services and tools
- ▶ Mobility
- ▶ Electronic transfers
- ▶ Environmental friendliness
- ▶ Security alerts

Disadvantages

- ▶ Diminished relationships
- ▶ Lack of comprehensive or special services
- ▶ Transaction issues
- ▶ Security issues

**Go green with
e-statements.**



Constraints in E-Banking



- Start-up cost
- Sophisticated Instruments Cost
- Cost of Maintenance of all equipments
- Training & Maintenance
- Lack of Skilled Personnel
- Security
- Legal Issues
- Restricted Clientele & Technical Problems
- Restricted business – not all transactions
- Destruction of Pricing Mechanisms- advantage to New players

Kamaraj

Banking

Multiple Choice Questions

1. The bank Venice was established in
a. 1401 b. 1407 c. 1157 d. 1159
2. The founder of bank of United States was
a. Alexander Hamilton b. Alfred Marshall c. King Charles d. Crowther
3. DFI stands for
a. Direct Financial Institutions b. Development Financial Institutions
b. Direct Financial Interest d. Direct Fiscal Institutions
4. The Number of partners in a partnership bank is
a. 2-15 b. 2-50 c. 2-10 d. 2-20
5. Public bank means
a. The Government Bank b. The bank established as Public Ltd Company
b. The bank which is owned by public d. None of the above
6. The Charter bank is established by the order of
a. Parliament b. President c. King or Queen d. Federal Government
7. State Bank of Pakistan is
a. A Statutory Bank b. A Central bank c. Bankers' Bank d. All of the above
8. The banks which work for earning profit are
a. Central Banks b. Commercial Banks c. Cooperative Banks d. All of the above
9. The banks which work on the mutual cooperation of members are
a. Industrial Bank b. Agriculture Bank c. Cooperative Banks d. All of the above
10. The banks which are the members of SBP are
a. Scheduled Banks b. Members Banks c. Clearing Banks d. None of the above
11. The Primary Function of a Commercial Bank is to
a. Receive Deposits and Receive Loans b. Advancing Loans and Advancing Deposits
b. Advancing Loans and Receiving Deposits c. None of the above
12. Issuing Letter of Credit by a commercial bank is
a. Agency Function b. Primary Function c. Public Utility Service d. None of the above
13. ATM card is used for
a. Withdrawal of Cheques b. Deposit of Cash c. Withdrawal of cash
d. None of the above
14. The formula for calculating credit expansion is
a. $(\text{Original Deposit} / \text{Cash Reserve}) \times 100$ b. $\text{Cash Reserve} / \text{Original Deposit}$
c. $1 / \text{Cash Reserve}$ d. None of the above

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15. Current account has the feature of
- Zakat Deduction and Overdraft facility
 - No Zakat Deduction and No Overdraft facility
 - No Zakat Deduction But Overdraft facility
 - Zakat Deduction but no Overdraft facility
16. The card used to obtain the sample of signature from the prospective accountholders is called
- Signature Sample Card
 - Signature Specimen Card
 - Sign Card
 - Sample Card
17. Which of the following is not the essential of cheque?
- Signed by the drawer
 - Contains Specified amount of money
 - May be oral or written
 - Payable on demand
18. Negotiable Instruments are operated in Pakistan under
- Negotiable Instruments Act 1956
 - Negotiable Instruments Act 1881
 - Negotiable Instruments Act 1984
 - Negotiable Instruments Act 1932
19. A bearer Cheque is
- Payable to a bearer
 - A risky Instrument
 - Can be transformed to order cheque
 - All of the above
20. The crossing which contains the name of a bank in between two lines in
- General Crossing
 - Specific Crossing
 - Plain Crossing
 - None of the above
21. The number of parties to a cheque is
- 2
 - 3
 - 4
 - 5
22. Drawee to a cheque is
- Account Holder
 - Banker
 - Both of them
 - None of them
23. If the cheque is dishonored due to the order of court of law, the reason for dishonour is
- Bankruptcy
 - Garnishee Order
 - Insufficient Amount
 - None of the above
24. When the drawer stops payment, it is called
- Drawer's action
 - Drawer's Countermand
 - Drawer's Call
 - None of the above
25. A bill of exchange must be
- An unconditional order
 - Signed by the drawer
 - In writing
 - All of the above
26. The bill of exchange which is used within the same country is called
- Inland Bill
 - Hundi
 - Both of them
 - None of them

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27. The alternate titles for Demand and Time bills of exchange are
- a. Sight and Foreign Bill b. Sight and Clean Bill
 - b. Sight and usance Bill c. All of the above
28. The Bill of exchange which does not require any documents are called
- a. Non-Documentary Bill b. Clean Bill c. Both of the above d. None of the above
29. The drawer of a bill of exchange is
- a. Debtor b. Creditor c. Banker d. None of them
30. The party who gets the bill for some consideration is called
- a. Endorser b. Endorsee c. Holder d. Holder in due course
31. The Grace days allowed for the payment of bill of exchange are
- a. 1 b. 2 c. 3 d. 4
32. When the name of endorsee is specified in the endorsement, it is called
- a. Blank endorsement b. General endorsement
 - c. Special endorsement d. None of the above
33. When the endorsee is not allowed to make endorsement any more, it is called
- a. Sans Recourse endorsement b. Conditional endorsement
 - c. Restrictive endorsement d. None of the above
34. A promissory Note must be
- a. An Unconditional Undertaking b. In writing
 - c. Signed by the drawer d. All of the above
35. The number of parties to a pro-note is
- a. 1 b. 2 c. 3 d. 4
36. Drawer to a pro-note is
- a. Debtor b. Creditor c. Banker d. None of the above
37. L/C stands for
- a. Letter of Commercial b. Letter of Creditor
 - c. Liability of Credit d. None of the above
38. Which of the following is a non-profitable use of bank fund for a bank?
- a. Giving Bank Overdraft b. Investing in Stock Exchange
 - c. Purchase of Computer for office d. Discounting the Bill of Exchange
39. When a commercial bank gets the bill discounted at the Central bank, it is called
- a. Discounting of Bill b. Rediscounting of Bill
 - c. Rebate of Bill d. None of the above
-

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40. The credit given on current account is called
a. Cash Credit b. Call Loans c. Overdraft d. Ordinary Loans
41. Which of the following is not a source of bank fund?
a. Capital and Deposits b. Federal Funds Purchased
c. Borrowing d. None of the above
42. The loans which calls for a security are
a. Unsecured Loans b. Clean Loans c. Secured Loans d. None of the above
43. I.O.U. stands for
a. I owed yours b. I out you c. I owe you d. I own yours
44. Mortgage calls for
a. Movable property b. Immovable property c. Both of them d. None of them
45. The first ever central Bank was
a. Bank of Venice in 1401 b. Bank of England in 1694
c. The bank of Italy in 1477 d. None of the above
46. Which of the following is not the feature of central bank?
a. Banker's bank b. Government's Bank
c. Lender of the last resort d. Issuing Notes for profit
47. DFIs means
a. Direct Financial Institutions b. Developmental Finical Institutions
c. Development Finical Institutions c. Developmental Final Institutions
48. In order to issue currency notes, 100% gold reserves are kept in
a. Fixed Fiduciary System b. Minimum Reserve System
c. Simple deposit System d. Proportional Reserve System
49. The interest rate at which the central bank rediscounts the first class securities of Commercial banks is called
a. Bank Rate b. Interest rate c. Credit rate d. None of the above
50. The State Bank of Pakistan was founded by the Quid-e-Azam
a. On 1st July 1948 under SBP Act 1956 b. On 1st July 1948 under SBP Act 1948
c. On 1st July 1948 d. All of the above
51. Balance of Trade includes
a. Visible items b. Invisible items c. Both d. None of the above
52. The price of foreign currency in terms of local currency is called
a. Foreign Currency b. Exchange rate c. Exchange Control d. None of the above
53. TT stands for
a. Telegraphic Transfers b. Telegraphic Traveling
c. Telephonic Transfers d. None of the above
-

54. In order to reduce the volume of import which of the following policy is used?

- a. Import Quota b. Import bans c. Import Duty d. All of the above

55. ICP was established on

- a. 22nd January 1964 b. 22nd January 1966
c. 22nd February 1964 d. 22nd February 1966

56. IBRD is also known as

- a. The world bank b. International bank for reconstruction and development
c. Both of them d. None of them

57. The objectives of IMF is/are

- a. To give loans to Countries b. To give loans to Banks
c. To give loans to Companies d. All of the above

58. The banking which takes place with the help of internet is called

- a. Online Banking b. Offline Banking c. Intranet Banking d. None of the above

59. The international money created by IMF is called

- a. Dollar b. Euro c. SDR d. None of the above

60. The Credit card are used

- a. To purchase goods through ATM b. To purchase goods on account
c. To purchase assets for cash d. None of the above