XII Commerce

Banking Notes and M.C.Qs

Prepared By

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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 mean 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 to 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

1. 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.
2. **Industrial Bank:**
The primary functions 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 economic development of a country.

**Examples:** Industrial Development Bank of Pakistan (IDBP)

3. **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 savings 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.

4. **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.

**Examples** : House Building Finance Corporation (HBFC)

5. **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.)

6. **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.

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

7. **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.

8. 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

1. 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.

a) 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.
b) **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.

c) **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.

2. **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:

1) **Secured:** against which security is demanded or property pledged.
2) **Unsecured:** advance on personal reputation and goodwill without any security

A bank creates advances in the following ways.
1. Intermediary loans.
2. Short term loans
4. Cash credit
5. By discounting bills

**B. 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:

a) Cheques  
b) Bank drafts  
c) Telegraphic transfer  
d) Telephonic transfer  
e) Letter of credit  
f) Traveler’s cheque

3. 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.

7. Purchase and sale of foreign currency
While going abroad the Central Bank authorizes you 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.

8. Miscellaneous Services
In addition to the above functions, banks perform miscellaneous functions like they:
1) Supply information and advice to their clients on matters relating to investment
2) Provide facility to travelers by issuing travelers 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 in Pakistan 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 Pakistani 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:**
   The prospective accountholder should now select the bank. Usually those banks are chosen 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 from:**
   Now the form should be submitted along with the required documents. These documents vary from account to account.

6. **Giving specimen signature:**
   Now, 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 the property in which 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

A) The term “Negotiable Instrument” mean as 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”.

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Characteristics of Negotiable instruments

1) **Negotiability.** In the case of a bearer instrument, the ownership passes from one person to another by mere delivery where 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.

2) **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 values of a negotiable instrument who takes it in good faith and before maturity. His title is not in any affected by the defective title of the transferor or any party.

3) **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.

4) **Transfer.** A negotiable instrument can be transferred any number of time 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 required 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:

It follows from the above definition that cheque is a bill of exchange possessing all the essential of a bill alongwith 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 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 all following kinds of cheques:
1. Primary kinds
2. Other kinds

1. Primary Kinds:

There are following kinds in this group.

a. Bearer Cheque:
The cheque which contains the phrase “or Bearer” is called bearer cheque. This is cheque is payble 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 is cheque is payble to a specific person whose name is written as payee or to the order of payee. This is a safer cheque and in case f lost, it can not 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 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 it face. Such a cheque can not be presentd 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

2. Other Kinds:

a. 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.

b. Post dated cheque:
The cheque which bears the future date is called Post dated cheque. This cheque cannot be presented for payment before the date.

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

d. 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 in 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.

a) The bank does not refuse to pay the cheque provided.

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

(b) When banker must refuse payment of a cheque. In the following cases, the banker must refuse payment of customer cheque:

i) Where the customer has stopped payment of the cheque.
ii) When the banker receives notice of customer’s notice of customer’s death. But a payment made before receiving the notice of death is valid.
iii) When an order of adjudication has been passed against the customer by the insolvency courts.
iv) When the banker receives notice of customer’s insanity.
v) When a garnishee order or any other legal order of the court prohibits payment of cheque.
vi) When the customer has given a notice to the banker for assignment of the credit balance of his account.
vii) When the banker has reason to believe that holder’s title defective.

(c) When banker may refuse payment of cheque.

i) When the cheque is not properly drawn and complete in respects e.g. ambiguous, mutilated, bearing an irregular endorsement signature differs etc.
ii) When the cheque is post dated.
iii) When the balance in customer’s account is insufficient to meet the cheque.
iv) When the cheque has become stale.
v) When signatures of all the joint holders of the account or their survivors do not appear on the cheque.
vi) 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.
vii) When a cheque is presented at a branch other than the one where the customer has account.
viii) 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 made 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. the holder 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 it 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 specially to another banker or his agent for collection.

Types of crossing.

i) General crossing

ii) Special crossing

i) General Crossing.

1. Plain Crossing:
   Where a cheque bears across its face an addition of the words and company or any abbreviation there of, 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

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<th>2</th>
<th>3</th>
<th>4</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>&amp; Co.</td>
<td>Not negotiable</td>
<td>Account Payee only</td>
</tr>
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</table>

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

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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:
1. It must be in writing.
2. It must contain a promise to pay.
3. The promise to pay must be unconditional
4. The maker must sign promissory note.
5. The maker should be a certain person.
6. The payee must also be a certain person.
7. The amount must be certain.
8. Payment should be of money only.
9. 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 “

<table>
<thead>
<tr>
<th>Rs 1,000</th>
<th>Karachi</th>
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</thead>
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<tr>
<td></td>
<td></td>
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<tr>
<td>On demand, I promise to pay Aslam or order a sum of rupees one thousand, for value received.</td>
<td></td>
</tr>
</tbody>
</table>

To,

Sh. Aslam
Nazimabad
Karachi

Signature of Mr. Ali
Stamp

Parties to a pro note

There are only two parties to a pro note:
1. **Drawer:**
   The person who makes the note is called drawer. He is the debtor and promises to the borrowed money. In the above example, Mr. Ali is the drawer.
2. **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

1. KINDS BY TIME:

a. **Sight pro note:**
   This type of note is payable on demand or at sight.

b. **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.

2. KINDS BY LIABILITY:

a. **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 a single promissory note.

b. **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 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 a 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 “drawer” 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
Karachi
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.

Stamp
Sd/-Aslam
Parties to a Bill of exchange

There are following parties to a bill of exchange:

1. **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.

2. **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.

3. **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.

4. **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.

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

6. **Holder in due course:**
   It is the party who rightly possesses the bill. He it in good faith, takes it as complete, regular and without the knowledge of its previous dishonour.

7. **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.

8. **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:

1. **KINDS BY PLACE:**
   Bills can be classified on the basis of place
   a. **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.
   b. **Foreign bill:**
      When the drawer and drawee are in different countries, the bill is said to be a foreign bill.

2. **KINDS BY TIME:**
   a. **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.
   b. **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 dishonoured.

3. KINDS BY DOCUMENTS:
   a. Documentary bill:
      Such bills carry documents with them like railway receipts, insurance receipts etc. They are further divided into two kinds:
      i) DOCUMENTARY BILL AGAINST PAYMENT:
         These bills are only paid when the necessary documents are issued and presented to the competent authority.
      ii) DOCUMENTARY BILL AGAINST ACCEPTANCE:
         Such bills are only accepted when the documents are realized by the drawer.
   b. 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.

4. KIND BY PAYMENT:
   a. Bearer bill:
      These bills are payable to any person who bears or carries them.
   b. Order bill:
      The payment of such bills is restricted to the person whose name is written as payee. He may, however, endorse it someone else.

5. OTHER KINDS:
   a. 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.
   b. 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.
   c. Bank bill:
      It is drawn on the bank by a bank.
Dishonour of bill of exchange

When the bill of exchange is not accepted or not paid on maturity, it is said to be dishonoured.
A bill may be dishonoured on two grounds:
1. Dishonour by non-acceptance
2. Dishonour by non-payment

1. Dishonour by non-acceptance
When the drawee refuses to accept the bill within 24 hours of its receipt, the bill is deemed to be dishonoured.

2. Dishonour by non-payment
If the drawee does not pay the bill on maturity and even after 3 days of grace, the bill is considered as dishonoured.

NOTING AND PROTESTING:
When a bill has been dishonoured by non-payment or non-acceptance, the drawer may sue the drawee. It is sometimes necessary to secure an official evidence or proof of dishonour. For this purpose noting and protesting is done. When the bill is dishonoured, the drawer goes to a notary public and gives him the bill. This notary public again present 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 now, the notary public issues a formal certificate to the drawer and certifies that the bill has been dishonoured.
Distinction between Bill of Exchange and Promissory

1. **Parties.** In a promissory 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.

2. **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.

3. **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.

4. **Notice of dishonour.** 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 a pronote is dishonoured, no such notice is necessary.

5. **Protest.** Foreign bills must be protested for dishonour 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.

6. A note cannot be made payable to the maker himself as 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.

7. **Copies.** Foreign bills are made in set. Normally three copies (each copy is called a via) are prepared, while only one copy drawn in case of a foreign pronote.

Distinction between a bill of exchange and a cheque.

i) **Drawee** A cheque is always drawn on a banker while a bill may be drawn on anyone including a banker.

ii) **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.

iii) **Days of grace.** Three days of grace are allowed on bills of exchange payable after a certain period of time. No such grace is given in case of cheques.

iv) **Acceptance.** A bill of exchange requires acceptance of drawee whereas a cheque does not require any acceptance.
v) **Bearer.** A cheque can be made payable to bearer but a bill of exchange payable on demand cannot be made payable

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

vii) **Stopping the payment.** Payment of a cheque can be stopped by the customer but a bill of exchange once accepted cannot countermanded.

viii) **Crossing.** A cheque may be crossed but a bill of exchange can’t be

ix) **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**

1. **Essential of a valid endorsement.**
   If the endorser of an instrument sings 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 endorsees. As such the instrument becomes payable to bearer even though originally it was payable to orders.

2. **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.

3. **Restrictive Endorsement:**
   An endorsement is said to be restrictive when it restricts or prohibits the further negotiability of the instrument.

4. **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.

5. **Conditional Endorsement.**
   An endorsement is conditional if it limits or negatives the liability of the endorser. It is also call as qualified endorsement.

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

7. **Sans frais endorsement:**
   When the endorser gets rid of the the liability of paying the charges incurred during the process of dishonour of the instrument, it is called sans frais endorsement.
A central bank is the most important institutions 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

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

1. **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.

2. **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.
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.

3. **Banker’s Bank**
   The central bank is the parent bank of all other banks. In this capacity the central bank performs three important functions.

   i) **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.

   ii) **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.

   iii) **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.

4. **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. Saves 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.

5. **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.

6. **Miscellaneous functions**
   In addition to the above functions, most of the central banks perform other functions like:
   1. The State bank of Pakistan 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:

<table>
<thead>
<tr>
<th>CENTRAL BANKS</th>
<th>COMMERCIAL BANKS</th>
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<tr>
<td>1. A central bank is the principal banking institutions of country,</td>
<td>1. A commercial bank is a dealer in short-term credit. It accepts deposits from</td>
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<td>entrusted with special responsibility of maintaining economic stability.</td>
<td>the people and finances the temporary needs of commence and industry</td>
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<td>2. Profit making is not the objective of central banks, although, they do</td>
<td>2. The principle aim of a commercial bank is to make large amounts of profits.</td>
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<td>earn profits.</td>
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<td>3. The central bank is owned any controlled by the Government.</td>
<td>3. A commercial bank is generally owned, managed and controlled by private</td>
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<td>citizens working under framework of the country’s law.</td>
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<td>4. The central bank is the non-competing unique institution.</td>
<td>4. The commercial banks are in constant competition with each other.</td>
</tr>
<tr>
<td>5. There is only one central bank in a country.</td>
<td>5. There are commercial banks operating in a country on a competitive basis.</td>
</tr>
<tr>
<td>6. The central bank is the only agency in a country entrusted with the power</td>
<td>6. The commercial banks do not have the power of issuing notes.</td>
</tr>
<tr>
<td>of issuance of notes.</td>
<td></td>
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<tr>
<td>7. The central bank is the lender of the money market</td>
<td>7. The commercial banks are just its subordinates.</td>
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<td>8. The central bank is not generally permitted to take direct interest in</td>
<td>8. A commercial bank can have a direct interest in other commercial or</td>
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<td>other commercial concerns.</td>
<td>industrial concerns through investment.</td>
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<td>9. The central bank cannot have a foreign branch.</td>
<td>9. A commercial bank may have hundreds of foreign branches.</td>
</tr>
<tr>
<td>10. The central bank is mainly the banker for Government.</td>
<td>10. The commercial bank may or may not be so.</td>
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STATE BANK OF PAKISTAN

This is central bank of the country and was established on July 1, 1948 under the State Bank order 1948.

The present structure, operation and authority of the state bank is based upon the State Bank of Pakistan Act, 1956 according to which the state bank is charged with regulating the monetary and credit systems of Pakistan, and foster its growth in the best national interest with a view to securing monetary stability and fuller utilization of the country’s productive resources. The State Bank thus combines orthodox central banking functions with well – recognized development roles.

According to section 4 of the State Bank of Pakistan Act, 1956, it had a mixed ownership wherein 51% of the share capital of Rs. 3 crores was held by the Central Government and 49% by private sector. However, following its nationalization in January 1974, the Federal Government has assumed ownership of all privately held shares on payment of compensation.

The general superintendence and direction of the affairs and business of the bank vests in Central Board of Directors, comprising of a Governor, one or more Deputy Governors and seven Directors nominated by the Federal Government. Except a Government Director, no members of Federal and provincial legislatures, salaried Government officials, an office or employee of any bank and a director of another bank can be a director. The directors hold the office as long as the federal Government so desire. The law requires that central board of directors must hold at least six meetings every year and at least one meeting every quarter; and a director loses his office if he absents himself from three consecutive meetings of the central board without leave.

Functions

As the Central bank of the country, the functions of the state bank of Pakistan have been defined in chapter IV of the state bank of Pakistan act, 1956, according to which it carries out the following functions.

(1) **Bank of note issue**: The necessity of maintaining uniformity in currency circulation and meeting the legitimate currency requirements of business and the general public, the privilege of issuing currency or bank notes in a country has been with its Central Bank almost every where in the world. In
this capacity, section 24 of the state bank of Pakistan act, 1956 had declared that state bank of Pakistan has the sole authority of the issue of bank notes which are legal tender in Pakistan under section 5 of the act. The Government of Pakistan has retained with it the prerogative of issuing the metallic currency and one-rupee notes, while the responsibility of issuing bank notes of the denominations of Rs. 5, Rs. 50, Rs. 100, Rs. 500 and Rs. 1000 has been entrusted to the issue department of the state bank under section 26 of the Act. The state bank of Pakistan act, 1956, has also laid down that the issue of bank notes should be backed by a proportional reserve system. At least 30 per cent of which should be maintained in the form of gold coins, gold bullion and approved foreign exchange. The gold in the issue department is valued at IMF parity.

At present the State bank of Pakistan is maintaining three offices of issue at Karachi, Lahore and Peshawar, and a number of currency chests all over the country. These currency chests are maintained by the offices of the national bank of Pakistan or by the Treasury offices.

(2) **Bankers to the Government:** Like any other Central Bank, the state bank of Pakistan fulfils the functions of the Banker to the Federal and the provincial Governments as mentioned in section 21 of the state bank of Pakistan act, 1956. It accepts deposits of cash, cheques or drafts drawn on other bank; it supplies the Government with the cash required for salaries and wages and other cash disbursements. It also debits the Government account with the amount of cheques and vouchers drawn by them and presented for payment by the beneficiaries, in addition to the transferring of Government funds from one account to another or from one place to another. No intuits or return is paid on the cash balances maintained for the Government by the state bank of Pakistan and whenever necessary the state bank advances money to the Government without any collateral security, but repayable not later than three months.

(3) **Adviser and Agent to the Government:** the State bank of Pakistan performs numerous services as agent and adviser to the central and provincial Governments as mentioned in sections 17 & 9A (13) of the state bank of Pakistan act, 1956. It makes recommendations on economic, financial and monetary matters agricultural credit industrial finance, exchange control, mobilization of savings and planning and development etc. In order to fulfil these obligations the State bank has been established the necessary machinery to keep the related statistical and other information available.

Under section 23 of the state bank of Pakistan act, 1956, it acts as Government’s agent for buying or selling approved foreign exchange from authorized dealers in Pakistan and under section 18 receives subscriptions for Government loans and payment of interest or return on
the national or provincial debts and issue, and discounting of Treasury Bill etc.

(4) **Bankers’ Bank:** According to section 36 of the act, the state bank of Pakistan is also the bankers’ bank and the lender of the last resort. In order to secure at least a minimum of the advantage of centralized cash reserve, and in order to strengthen the general financial position of the central bank and its capacity to control the credit in the common interest. It is obligatory for all the scheduled banks in Pakistan to maintain with the state bank a minimum reserve of 5 percent of their demand and 2 percent of time liabilities as on the close of business on the last working day of the week. If the scheduled banks are not in a position to maintain this requirement the State Bank is authorized to charge penalties as prescribed in Sub section 4 (a & b). Under section 17 of the Act the State bank is also authorized to purchase, hold and sell shares and debentures of any banking company or of any corporation financing agricultural or industrial development in Pakistan.

In return, the scheduled banks are entitled to rediscount facilities from the State bank against Government securities 90 days maturity trade bills and agricultural bills. In addition, under sections 27 and 28 of the banking companies ordinance, 1962. The state bank has been given the sole authority to process applications from banks for opening new branch or for changing the location of the existing ones. Under section 35 of the Act the state bank can prohibit an unsound bank from accepting fresh deposits; and it can move a court of law for liquidation of a bank, which fails to fulfil various legal requirements.

(5) **Controller of Credit and Bank Rate:** Since credit plays a predominant part in the settlement of monetary and business truncations 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 provide 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 he 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 through 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 become 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:

A. **QUANTITATIVE METHODS**

1. **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 ash 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.
2. **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 Governments 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 as 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.

3. **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 decree in cash reserves acts in the opposite direction.

4. **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.

**B. QUALITATIVE METHODS**

1. **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 excessive statutory compulsion but requests and
persuades member bank to refrain from increasing their loans for speculation of non–essential activities.

2. **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.

3. **Direct Action**
   In case of failure of different instruments of credit control, the central bank takes direct action. 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 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 a 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 with draws 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 different between a cash finance and overdraft lies in the fact that cash finance is a bank finance used for long term by commercial and industrial concerns on regular basis, while an overdraft is a temporary accommodation occasionally resorted to.

**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 in Pakistan are payable generally on demand.

**Purchases and Discounting of Bills**
Bankers in Pakistan 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 Pakistan.
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 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 to meet unforeseen contingencies;
   (f) Payment of dividends to the shareholders.

A major portion of the banker’s earnings comes 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 depends 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 a 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 lending solve the borrower’s financial problems 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) Authorises another bank to effect such payment, or to pay accept or negotiate such bills of exchange (drafts), or
(iii) authorises another bank to negotiate, against stipulated documents, provided that the terms and conditions of the credit are compiled 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 mentioned therein are duly compiled 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 standing, 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.

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) 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.

(b) 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.

(c) 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.
FINANCE

SOURCES OF BUSINESS FUNDS

COMMERCIAL BANKS have been the most effective mobilizers of savings and have been providing working capital to trade, commerce and industry. Presently these banks are operating in the nationalized, privatized.

Three main nationalized commercial banks of Pakistan are:
1. Habib Bank Limited
2. United Bank Limited
3. National Bank of Pakistan

Privatized Banks are:
1. Muslim Commercial Bank Limited

EXCHANGE BANKS: Foreign banks other than Indian banks have been commonly known as “Exchange Banks” due to the fact that prior to Independence foreign banks in the Indo-Pakistan subcontinent were engaged primarily in finance of foreign trade and exchange business.

At present more than twenty-four foreign banks from European, American, Middle Eastern, African and other countries are operating their more than 3 branches in the port and main commercial towns in Pakistan.

Though the State bank of Pakistan does not encourage them to open branches in the interior yet they are fully authorized to discharge normal functions, including the acceptance of Pak Rupee and Foreign – Currency deposits from the public.

Foreign Banks, though very selective and expensive, have introduced not only quite a few new products and concepts in banking in Pakistan but they have been quite active in the financing of imports, exports, stock exchange securities and installment credit.

COOPERATIVE BANKS: Cooperative banks are an integral part of the cooperative movement which aims at the promotion of thrift, self-help and mutual aid amongst agriculturists and others with common economic needs so as to bring about better living, better business and better methods of production etc.

Generally there is three – tier system of cooperative banks in Pakistan; and this system consists of primary cooperative societies at the base; Central banks and
banking Unions in the middle, and provincial banks at the top as “apex banks”. There are four provincial or Apex Cooperative banks, one each on Punjab, Sindh, NWFP, and Balochistan, fifty two central 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.

**SAVINGS BANKS:** There is only one Saving Bank in Pakistan i.e. Post Office Savings Bank and the Government of Pakistan controls it wholly. It accepts deposits from public and invests them in various Government projects. Its operation, therefore, is very limited.

**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.

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**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:

**Pakistan Industrial Credit And Investment Corporation (PICIC)**

**History:**
In order to raise the needed working and fixed capital for industry in Pakistan, Pakistan Industrial Finance Corporation (PIFC) was established in 1949; but its operations were restricted to Rupee loans only and allowed mainly to finance new industries. PIFC could not arrange for industrial machinery, technical know-how and foreign exchange, which were badly needed by the country. Therefore, another institution, namely Pakistan Industrial Credit And Investment Corporation
was established in 1957 for the purpose of raising fixed capital for large-scale industrial projects.

**Financing the Corporation:**
While the Government of Pakistan has provided long-term Rupee funds by way of loans to the corporation, the World Bank has allowed credit in foreign currencies. The paid-up capital of the corporation is Rs. 150 million, 63.14% of which is held by private investors, financial investors and financial institutions in Pakistan and 36.59% by foreign investors. The foreign investors, 41 in number, include financial institutions from USA, UK, West Germany, France, Japan, Switzerland and Italy. International Finance Corporation (IFC) holds 2.51% of the total paid-up capital.

**Organizational Structure of the Corporation:**
The corporation is managed by a Board of Directors which consists of 20 members, of whom 12 (including a Chairman) are elected by Pakistani shareholders, 5 foreign shareholders, one by I.F.C and 2 directors and a managing director is appointed by the Federal Government of Pakistan, while the chairman is elected by the board of directors and the managing director.

**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-orientated 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.

**Industrial Development Bank Of Pakistan (IDBP)**

**History:**
The Government of Pakistan established Pakistan Industrial Finance Corporation in 1949 to provide medium and long-term credit facility to industrial concerns, engaged in manufacture, preservation or processing of goods, mining and generation of power; but on August 1, 1961, at the recommendation of the Credit Inquiry Commission, the Government converted Pakistan Industrial Finance Corporation into the Industrial Development Bank Of Pakistan.

**Functions of the Institution:**
This institution has been given the enlarged function of providing medium and long-term finance to small and medium – scale enterprises, especially to bring into industrial orbit an increasingly large number of new entrants.

**Financing Criteria:**
The bank has all along endeavored to expand its coverage. However, it finances only those process which are economically sound, financially profitable, and technically feasible; and also they should be import-competing, export – oriented or based on indigenous raw materials.

**Working of the Bank:**
The maximum period for which the bank lends is 15 years against the mortgage of industrial assets scheduled bank guarantees, personal guarantees and cash deposits. It charges a uniform interest rate of 11% on foreign currency loans. The rate on local currency loans is between 3 to 4 percent above bank rate. The repayment starts after the project has gone into operation.

**Resources of the Bank:**
The bank has a paid-up capital of Rs. 50 crores. 77.7 % of this is held by the Federal Government of Pakistan and the remaining 22.3% by provincial Governments and other financial institutions that are also owned by the Federal Government. Upon nationalization of the bank on January 01,1974 the share capital previously subscribed by other institution and private investors was taken over by the Federal Government.

**Sources of Capital for the Bank:**
The bank obtains capital from the following sources:

1. Borrowings from the Federal Government;
2. Borrowings from the State Bank of Pakistan, secured by the guarantee of the federal Government.
3. Re-discounting of bills with the State Bank of Pakistan
4. Time deposits
5. Issue and sale of bonds and debentures.
Organizational Structure of the Bank:
The general direction and superintendence of the affairs of the bank vest in the Board of Directors, consisting of a Chairman, a Managing Director and 7 other members, 6 of whom are appointed by the Federal Government, on each from the four provinces. A contemporary financing company nominates the seventh member.

Agricultural Development Bank of Pakistan (ADBP)

Development of ADBP:
Pakistan is basically an agricultural country; and finance was needed for its rapid development. With a view to meet this basic need the Agricultural Development Finance Corporation was set up in 1951, and was entrusted with the task of providing financial facilities for the development and modernization of agriculture, including forestry, fishery, animal husbandry, poultry and dairy farming.

Later on the Agricultural Development Bank of Pakistan was also established in September 1957 under the agricultural development bank act. The bank was to provide credit in cash or in kind, warehousing and storage facilities to agriculture, co-operative societies and other bodies, of which the majority of members were agriculturists. As the functions of the agricultural development finance and agricultural development bank were similar and since both were working with the capital provided by the Government, they were merged into one organization known as Agricultural Development Bank of Pakistan on February 19, 1961.

Resources of the Bank:
The authorized capital of the bank is Rs. 40 crores, and subscribed capital is Rs. 36 crores, about 95% of which is held by the Federal Government, and the remaining about 5% shares are held by the Provincial Governments.

Organizational Structure of the Bank:
The general direction and superintendence of the affairs of the bank are entrusted to a 12-member Board of Directors consisting of a Chairman appointed by the Federal Government, the Federal Government officers from the Ministers of Finance and Food and Agriculture, four officers of the four Provincial Governments and one non-official nominated by each province. One member on this board represents the State Bank of Pakistan also.

Objective of the Bank:
Its specific object is “affording credit facilities to agriculture and persons engaged in cotton industries in the rural areas, and for matters connected therewith”.

Workings of the Bank:
The Agricultural Development Bank of Pakistan is a banking company; therefore, it has to abide by the credit and monetary policies and directions issued by the State Bank of Pakistan. The bank is also authorized to accept deposits, but prohibited from engaging itself in trade or having direct interest in industrial or other undertakings. The bank is authorized to advance short-term loans repayable within 18 months; medium – term loans to be repaid between 18 months to 5 years; and long-term loans to be repaid within a period exceeding 5 years. The bank charges interest at 12%. In case of default the bank charges 2% recovery charges and additional 2% penal interest.

**Investment Corporation of Pakistan (ICP)**

**Formation:**
With a view to broadening the base of investments and developing the capital market, the Government of Pakistan established the Investment Corporation of Pakistan (ICP) in February 1966.

**Activities of the Corporation:**
The corporation seeks to fulfill its objective through the following.

1. It underwrites the new issues of securities and debentures so that the entrepreneurs are able to meet the equity and credit gap in the financing of projects.
2. It opens and maintains investor’s account in order to promote share mindedness in general public. This widens the lease of capital market for the purchase and sale of stocks and bonds of public limited companies.
3. Closed end mutual funds are floated.
4. Shares are bought and sold in the stock market at appropriate times so that the share values are stabilized.

**Organizational Structure of the Corporation:**
The general direction and supervision of the affairs of the Corporation are vested in a 10 – member Board of Directors, including the Chairman and Managing Director who are appointed by the Federal Government.

**Resources of the Corporation:**
The authorized capital of ICP is Rs. 20 crores of which Rs. 10 crores have been subscribed by the banks, State Life Insurance Corporation and Pakistan Insurance Corporation.

**National Development Finance Corporation (NDFC)**

**Formation:**
The Government of Pakistan established the National Development Finance Corporation on January 3, 1973, for the purpose of providing long and medium –
term loans, working capital and other assistance and advice to the Government managed or Government sponsored enterprises.

**Resources of the Corporation:**
The authorized share capital of the Corporation is Rs. 20 crores, divided into twenty lakh ordinary shares of Rs. 100 each. However the Federal Government has contributed the entire capital.

The major portion of the Corporation funds comprises of capital, reserves, deposits, credit lines from state Bank of Pakistan, as also of loans raised from international financial institutions like world Bank, Asian Development Bank and Islamic Development Bank etc.

**Organizational Structure of the Bank:**
The overall direction and superintendence of the affairs of the Corporation vests in a Board of Directors consisting of six persons, including a chairman. The Federal Government of Pakistan appoints all the members of the board of directors, but two of them are from financial intuitions.

**National investment Trust (NIT)**

**Formation:**
National Investment (Unit) Trust was established on 12th November 1962, under the companies Act, 1913.

**Resources of the Trust:**
It is a joint stock company with a paid-up capital of Rs. 12 lacs subscribed equally by 12 share-holders, viz., the Federal Government, four leading banks, three financial institutions, the Pakistan insurance corporation and three leading Pakistani industrialists.

**Objective of the Trust:**
The main objective of the trust is the mobilization of savings of the people through the sale of its units and to invest the funds so raised in shares and debentures of sound and productive enterprises in the interest of unit-holders. Thus it not only helps in the consideration of savings but also goes along way in meeting the growing financial needs of corporate sector. The return on the investments so made is distributed among the Unit-holders annually.

**Activities of the Trust:**
NIT sales registered units and Bearers units and these units are approved security and approved investment for the purpose of Companies Act and Insurance Act. The dividend income from these units up to Rs. 10,000/- per annum is also exempt from income tax.

**Organizational Structure of the Trust:**
General direction and superintendence of the affairs of the NIT is vested in the board of directors consisting of a managing director appointed by the Government of Pakistan, 12 representatives of the shareholders including presidents of the four leading banks and of some financial institutions. The national bank of Pakistan acts as its trustee.

**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 issuers 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 markets.

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<th>Ultimate Lenders</th>
<th>Financial Intermediaries</th>
<th>Ultimate Borrowers</th>
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<td>- Households</td>
<td>- Depository financial institutions</td>
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**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 transferal 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 an 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 mean 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 issue 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 represents 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 mortgage.

**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. In the case of many Pakistani banks the reserve fund has approached in amount the paid-up capital.

**LIQUID ASSETS:**
According to the Section 29(1) of the banking Companies Ordinance, 1962, every bank in Pakistan 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 State Bank of Pakistan; 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.

**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 Pakistan 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 a 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.

PAK RUPEE NON-RESIDENT ACCOUNTS
Accounts in Pak Rupee of individuals, firms or companies residing in countries
outside Pakistan are known as “Non-Resident Accounts”. The State Bank
Notification No Fe 129 August 31, 1991, has categorized the following accounts
as “Non-residents Accounts”

(i) Accounts of Pakistan national permanently resident and domiciled abroad.
However, accounts of Pakistan nationals, holding office in the service of
Pakistan in a foreign country are exempted.
(ii) Accounts of Pakistan nationals ho go out if Pakistan for a short duration in
connection with study, business tour or pleasure trip etc.
(iii) Accounts of foreign nationals ordinarily residing in Pakistan but going
abroad for a short duration.
(iv) Accounts of foreign nationals residing abroad.

The Non-Resident Accounts in all the above four categories shall be treated as
resident on account – holder’s permanent return or in temporary return to
Pakistan. In all such cases permission of state Bank of Pakistan is not necessary
and there will be no restriction on account holder’s operating these accounts.

FOREIGN CURRENCY ACCOUNTS
Government of Pakistan has introduced many important reforms in Foreign
Exchange Control in the country in February 1990, for the purpose of
strengthening the Foreign Exchange Reserves. One of these reforms relates to foreign currency accounts, which can be opened in United States Dollars, Pound Sterling, Deutsche Marks and Japanese Yens in any of the authorized branches of commercial banks throughout the country.

Any individual, firm and company, whether Pakistani or Foreigner and whether a resident or non-resident in Pakistan, can open the Current, Savings Bank, Special Notice and Term Deposits Accounts in any of the above mentioned foreign currencies.

These accounts can be opened and maintained singly or in the joint names, and Rupee Loan facility is available against the balances held in such accounts. Government of Pakistan has exempted these foreign currency accounts from payment of taxes and deductions of Zakat on the deposits and return accrued on them. In addition, overseas Pakistanis can sponsor their parents, relatives and friends for Haj by making payment from these Foreign Currency Accounts in Pakistan.

Though enquiries are not made about the sources of the fund for these Foreign Currency Accounts, yet the State bank of Pakistan has asked the banks to be vigilant to avoid the use of these accounts for money laundering purposes.

**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**

1. **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.

2. **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 or 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.

3. **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.

4. **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**

1. **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.

2. **Purchase Of Non-current Assets.** The purchase of noncurrent assets, such as 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.

3. **Repayment Of Long Term Debt.** Working capital is decrease when current assets are used to repay 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.

4. **Repurchase Of Outstanding Stock.** When cash is paid out to repurchase outstanding shares of stock, working capital is reduced.

**MUSHARAKAH**

Musharakah is a term frequently referred to in the context of Islamic modes of financing. The connotation of this term is a little limited than the term “Shirkah” more commonly used in the Islamic jurisprudence. For the purpose of clarity in the basic concepts, it will be pertinent at the outset to explain the meaning of each term, as distinguished from the other.
“Shirkah” mean “Sharing” and in the terminology of Islamic Fiqh, it has been divided into two kinds:

1. **Shirkat-ul-milk**: It means joint ownership of two or more person in a particular property. This kind of “Shirkah” may come into existence in two different ways: Sometimes it comes into operation at the option of the parties. For example, if two or more persons purchase equipment, it will be owned joint by both of them and the relationship between them with regard to that property is called “Shirkat-ul-milk”. Here this relationship his come into existence

   But there are cases where this kind of “Shirkah” comes to operate automatically without any action taken by the parties. For example, after the death of a person.

2. **Shirkat-ul-`aqd**: This is the second type of Shirkah which means “a partnership effected by a mutual contract”. For the purpose of brevity it may also be translated as “joint commercial enterprise.”

   Shirkat-ul-`aqd is further divided into three kinds:

   (i) **Shirkat-ul-amwal** where all the partners invest some capital into a commercial enterprise.

   (ii) **Shirkat-ul-A`mal** where all the partner jointly undertake to render some services for their customers, and the fee charged from them is distributed among them according to an agreed ration. For example, if two persons agree to undertake tailoring services for their customers on the condition that the wages so earned will go to a joint poll which shall be distributed between them irrespective of the size of work each partner has actually done, this partnership will be shirkat-ul-A`mal which is also called Shirkat-ul-taqabbul or shirkat-us-Sana`1 or Shirkat-ul-abdan.

   (iii) The third kind of Shirkat-ul-`aqd is **Shirkat-ul-wujuh**. Here the partners have no investment at all. All they do is that they purchase the commodities on a deferred price and sell them at spot. The profit so earned is distributed between them at an agreed ration.

All these modes of “Sharing” or partnership are termed as “Shirkah” in the terminology of Islamic Fiqh, while the term “Musharakah” is not found in the books of Fiqh. This term (i.e. Musharakah) has been introduced recently by those who have written on the subject of Islamic modes of financing and it is normally restricted to a particular type of “Shirkah”, that is, the Shirkat-ul-amwal. Where two or more persons invest some of their capital in a joint commercial venture. However, sometimes it includes Shirkat-ul-A`mal also where partnership takes place in the business of services.
It is evident from this discussion that the term “Shirkah” has a much wider sense that the term “Musharakah” as is being used today. The latter is limited to the “Shirkat-ul-amwal” only, while the former includes all types of joint ownership and those of partnership. Table 1 will show the different kinds of “Shirkah” and the two kinds which are called Musharakah” in the modern terminology.

Since “Musharakah” more relevant for the purpose of our discussion, and it is almost analogous to “Shirkat-ul-amwal”, we shall now dwell upon it, explaining at the first instance, the traditional concept of this type of Shirkah, then giving a brief account of its application to the concept of financing in the modern context.

MUDARBAH

“Mudarabah” is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The investment comes from the first partner who is called “rabb-ul-mal”, while the management and work is an exclusive responsibility of the other, who is called “mudarib”.

The difference between Musharakah and Mudarabah can be summarized in the following points.

1. The investment in Musharakah comes from all the partners, while in Mudarabah; investment is the sole responsibility of rabb-ul-mal.
2. In Musharakah, all the partners can participate in the management of the business and can work for it, while in Mudarabah, the rabb-ul-mal has no right to participate in the management, which is carried out by the mudarib only.
3. In Musharakah all the partners share the loss to extent of the ratio of their investment while in Mudarabah the loss, if any, is suffered by the rabb-ul-mal only, because the mudarib does not invest while in Mudarabah the loss, if any, is suffered by the rabb-ul-mal only, because the mudarib does not invest anything. His loss is restricted to the fact that his labor has gone in vain and his work has not brought any fruit to him.

However, this principle is subject to a condition that the mudarib has worked with due diligence which is normally required for the business of that type. If he has worked with negligence or has committed dishonesty, he shall be liable for the loss caused by his negligence or misconduct.

4. The liability of the partners in Musharakah is normally unlimited. Therefore, if the liabilities of the business exceed its assets and the business goes in liquidation, all the excess liabilities shall be borne pro rata by all the partners. However, if all the partners have agreed that no partner shall incur any debt during the course of business, then the
exceeding liabilities shall be borne by that partner alone who has incurred a debt on the business in violation of the aforesaid condition.

Contrary to this is the case of Mudarabah. Here the liability of rabb-ul-mal is limited to his investment, unless he has permitted the mudarib to incur debts on his behalf.

(5) In Musharakah, as soon as the partner mix up their capital in a joint poll, all the assets of the Musharakah become jointly owned by all of them according to the proportion of their respective investment. Therefore, each one of them can benefit from the appreciation in the value of the assets, even if profit has not accrued through sales.

The case of Mudarabah is different. Here all the goods purchased by the mudarib are solely owned by the rabb-ul-mal, and the mudarib can earn his hare in the profit only in case he sells the goods profitably. Therefore, he is not entitled to claim his share in the assets themselves, even if their value has increased.

MEANING OF SALAM
Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot.

Here the price is cash, but the supply of the purchased goods is deferred. The buyer is called “rabb-us-salam”, the seller is “muslam ilaah”, the cash price is “ra`s-ul-mal” and the purchased commodity is termed as “muslam fih”, but for the purpose of simplicity, we shall use the English synonyms of these terms.

Salam was allowed by the Holy Prophet subject to certain conditions. The basic purpose of this sale was to meet the needs of the small farmers who needed money to grow their crops and to feed their family up to the time of harvest. After the prohibition of riba they could not take usurious loans. Therefore, it was allowed for them to sell the agriculture products in advance.

Similarly, the traders of Arabia used to export good to other placed and to import some other goods to their homeland. They needed money to undertake this type of business. They could not borrow from the usurers after the prohibition of riba. It was, therefore, allowed for them that they sell the goods in advance. After receiving their cash price. They could easily undertake the aforesaid business.

Salam was beneficial to the seller, because he received the price in advance, and it was beneficial to the buyer also, because normally, the price in salam used be lower than the price in spot sales.
The permissibility of salam was an exception to the general rule that prohibits the forward sales and therefore, it was subjected to some strict conditions. These conditions are summarized below “

CONDITIONS OF SALAM
1. First of all, it is necessary for the validity of Salam that the buyer pays the price in full to the seller at the time of affecting the sale. It is necessary because in the absence of full payment by the buyer, it will be tantamount to sale of a debt against a debt, which is expressly prohibited by the Holy Prophet ﷺ.

Moreover, the basic wisdom behind the permissibility of salam is to fulfill the instant needs of the seller. If the price is not paid to him in full, the basic purpose of the transaction will be defeated.

Therefore, all the Muslim jurists are unanimous on the point that full payment of the price is necessary in salam. However, Imam Malik is of the view that the seller may give a concession of two or three days to the buyers, but this concession should not form part of the agreement.

2. Salam can be affected in those commodities only the quality and quantity of which can be specified exactly. The things whose quality or quantity is not determined by specification cannot be sold through the contract of salam. For example, previous stones cannot be sold on the basis of salam, because every piece of precious stones is normally different from the other either in its quality or in its size or weight and their exact specification is not generally possible.

3. Salam cannot be affected in a particular field or farm. For example, if the seller undertakes to supply the wheat of a particular field, or the fruit of a particular tree, the salam will not be valid, because there is a possibility that the crop of that particular field or the fruit of that tree is destroyed before delivery. And given such possibility, the delivery remains uncertain. The same rule is applicable to every commodity the supply of which is not certain.

4. It is necessary that the quality of the commodity (intended to be purchased through salam) be fully specified leaving no ambiguity which may Lead to a dispute. All the possible details in this respect must be expressly mentioned.

5. It is also necessary that the quantity of the commodity be agreed upon in unequivocal terms. If the commodity is quantified in weights according to the usage of its traders, its weight must be determined, and if it is quantified through measures, its exact measure should be known. What is normally weighed cannot be quantified in measures and vice versa.
6. The exact date and place of delivery must be specified in the contract.

7. Salam cannot be affected in respect of things, which must be delivered at spot. For example, if gold is purchased in exchange of silver, it is necessary, according to Shari'ah, that the delivery of both be simultaneous.

Here salam cannot work. Similarly, if wheat is bartered for barley, the simultaneous delivery of both is necessary for the validity of sale. Therefore the contract of salam in this case is not allowed.

All the Muslim jurists are unanimous in the principle that salam will not be valid unless all these conditions are fully observed, because they are based on the express a hadith of the Holy Prophet ﷺ. The most famous hadith in this context is the one in which the Holy Prophet ﷺ has said:

“Whoever wishes to enter into a contract of salam, he must effect the Salam according to the specified measure an the specified weight and the specified date of delivery.”

**ISLAMIC INTERNATIONAL BASE TRADE**

Musharakah and mudarabah can be used more easily for financing a single transaction. Apart from fulfilling the day-to-day needs of small traders, these instruments can be employed for financing imports and exports. An importer can approach a financier to finance him for that single transaction of import alone on the basis of musharakah or mudarabah. The banks can also use these instruments for import financing. If the letter of credit has been opened without any margin, the form of mudarabah can be adopted, and if the L/C is opened with some margin, the form of musharakah or a combination of both will be relevant. After the imported goods are cleared from the port, the importer and the financier according to a pre-agreed ratio may share their sale proceeds.

In this case, the ownership of the imported good shall remain with the financier to the extent of the ratio of his investment. This musharakah can be restricted to an agreed term, and if the imported goods are not sold in the market up to the expiry of the term, the importer may himself purchase the share of the financier, making himself the sole owner of the goods. However, the sale in this case should take place at the market rate or at a price agreed between the parties on the date of sale, and not at pre-agreed price at the time of entering into musharakah. If the price is pre-agreed, the financier cannot compel the client / importer to purchase it.

Similarly, musharakah will be even easier in the case of export financing. The exporter has a specific order from abroad. The price on which the goods will be
exported is well known beforehand, and the financier can easily calculate the expected profit. He may finance him on the basis of musharakah or mudarabah, and may share the amount of export bill on a pre-agreed percentage. In order to secure himself from any negligence on the part of the exporter, the financier may put a condition that it will be the responsibility of the exporter to export the goods in full conformity with the conditions of the L/C. In this case, if some discrepancies are found, the exporter alone shall be responsible, and the financier shall be immune from any loss due to such discrepancies, because it is caused by the negligence of the exporter. However, being a partner of the exporter, the financier will be liable to bear any loss, which may be caused due to any reason other than the negligence or misconduct of the exporter.
XII- Banking
Multiple Choice Questions

Q1. The bank of Venice was established in
* 1401  * 1407  * 1157  * 1159

Q2. The founder of bank of United States was
* Alexander Hamilton  * Alfred Marshal  * King Charles
* Crowther

Q3. DFI stands for
* Direct Financial Institutions  * Development Financial Institutions
* Direct Financial Interest  * Direct Fiscal Institutions

Q4. The Number of partners in a partnership bank is
* 2-15  * 2-50  * 2-10  * 2-20

Q5. Public bank means
* The Government Bank  * The bank established as Public Ltd. Company
* The bank which is owned by Public  * None of the above

Q6. The Charter bank is established by the order of
* Parliament  * President  * King or Queen  * Federal Government

Q7. State Bank of Pakistan is
* A Statutory Bank  * A Central bank  * Bankers' Bank
* All of the above

Q8. The banks which work for earning profit are
* Central Banks  * Commercial Banks  * Cooperative Banks
* All of the above

Q9. The banks which work on the mutual cooperation of members are
* Industrial Bank  * Agriculture Bank  * Cooperative banks  * All of the above

Q10. The banks which are the members of SBP are
* Scheduled Banks  * Members Banks  * Clearing Banks  * None of the above

Q11. The primary Function of a Commercial Bank is to
* Receive Deposits and Receive Loans  * Advancing Loans and Advancing Deposits
* Advancing Loans and Receiving Deposits  * None of the above

Q12. Issuing Letter of Credit by a commercial bank is
* Agency Function  * Primary Function  * Public Utility Service
* None of the above

Q13. ATM card is used for
* Withdrawal of Cheques  * Deposit of Cash  * Withdrawal of cash
* None of the above
Q.14 The formula for calculating credit expansion is
*(Original Deposit / Cash Reserve) 100 * Cash Reserve/Original Deposit
* 1/ Cash Reserve * None of the above

Q.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

Q.16 The card used to obtain the sample of signature from the prospective account holders is called
* Signature Sample Card * Signature Specimen Card * Sign Card * Sample Card

Q.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

Q.18 Negotiable Instruments are operated in Pakistan under
* Negotiable Instruments Act 1956 * Negotiable Instruments Act 1881
* Negotiable Instruments Act 1984 * Negotiable Instruments Act 1932

Q.19 A bearer Cheque is
* Payable to a bearer * A risky Instrument
* Can be transformed to order cheque * All of the above

Q.20 The crossing which contains the name of a bank in between two lines is
* General Crossing * Specific Crossing * Plain Crossing * None of the above

Q.21 The number of parties to a cheque is
* 2 * 3 * 4 * 5

Q.22 Drawee to a cheque is
* Account Holder * Banker * Both of them * None of them

Q.23 If the cheque is dishonoured due to the order of court of law, the reason for dishonour is
* Bankruptcy * Garnishee Order * Insufficient Amount * None of the above

Q.24 When the drawer stops payment, it is called
* Drawer’s action * Drawer’s Countermand
* Drawer’s Call * None of the above

Q.25 A bill of exchange must be
* An unconditional order * Signed by the drawer * In writing
* All of the above

Q.26 The bill of exchange which is used within the same country is called
* Inland Bill * Hundi * Both of them * None of them

Q.27 The alternate titles for Demand and Time bills of exchange are
* Sight and Foreign Bill       * Sight and Clean Bill       * Sight and usance Bill
* All of the above

Q.28 The Bill of exchange which does not require any documents are called
* Non-Documentary Bill       * Clean Bill       * Both of the above       * None of the above

Q.29 The drawer of a bill of exchange is
* Debtor       * Creditor       * Banker       * None of them

Q30 The party who gets the bill for some consideration is called
* Endorser       * Endorsee       * Holder       * Holder in due course

Q.31 The Grace days allowed for the payment of bill of exchange are
* 1       * 2       * 3       * 4

Q.32 When the name of endorsee is specified in the endorsement, it is called
* Blank endorsement       * General endorsement       * Special endorsement       * None of the above

Q.33 When the endorsee is not allowed to make endorsement any more, it is called
* Sans Recourse endorsement       * Conditional endorsement
* Restrictive endorsement       * None of the above

Q.34 A promissory Note must be
* An Unconditional Undertaking       * In writing       * Signed by the drawer
* All of the above

Q.35 The number of parties to a pro-note is
* 1       * 2       * 3       * 4

Q.36 Drawer to a pro-note is
* Debtor       * Creditor       * Banker       * None of the above

Q.37 L/C stands for
* Letter of Commercials       * Letter of Creditor       * Liability of Credit
* None of the above

Q.38 Which of the following is a non-profitable use of bank fund for a bank?
* Giving Bank Overdraft       * Investing in Stock Exchange
* Purchase of Computer for Office       * Discounting the Bill of Exchange

Q.39 When a commercial bank gets the bill discounted at the Central bank, it is called
* Discounting of Bill       * Rediscounting of Bill       * Rebate of Bill
* None of the above

Q40 The credit given on current account is called
* Cash Credit       * Call Loans       * Overdraft       * Ordinary Loans

Q41 Which of the following is not a source of bank fund?
* Capital and Deposits       * Federal Funds Purchased       * Borrowing
Q42 The loans which calls for a security are
* Unsecured Loans * Clean Loans * Secured Loans * None of the above

Q43 I.O.U. stands for
* I owed yours * I out you * I owe you * I own yours

Q44 Mortgage calls for
* Movable property * Immovable property * Both of them * None of them

Q45 The first ever central Bank was
* Bank of Venice in 1401 * Bank of England in 1694 * The bank of Italy in 1477
*None of the above

Q46 Which of the following is not the feature of central bank?
* Bankers' bank * Government’s Bank * Lender of the last resort * Issuing Notes for profit

Q47 DFIs means
* Direct Financial Institutions * Developmental Finical Institutions
* Developmental Finical Institutions * Developmental Final Institutions

Q48 In order to issue currency notes, 100% gold reserves are kept in
* Fixed Fiduciary System * Minimum Reserve System * Simple deposit System
* Proportional Reserve System

Q49 The interest rate at which the central bank rediscounts the first class securities of commercial banks is called
* Bank Rate * Interest rate * Credit rate * None of the above

Q50 The State Bank of Pakistan was founded by the Quid-e-Azam
* On 1st July 1948 under SBP Act 1956 * On 1st July 1948 under SBP Act 1948
* On 1st July 1948 * All of the above

Q51 Balance of Trade includes
* Visible Items * Invisible Items * Both * None of the above

Q52 The price of foreign currency in terms of local currency is called
* Foreign Currency * Exchange rate * Exchange Control * None of the above

Q53 TT stands for
* Telegraphic Transfers * Telegraphic Traveling * Telephonic Transfers
* None of the above

Q54 In order to reduce the volume of import which of the following policy is used?
* Import Quota* Import bans * Import Duty * All of the above

Q55 ICP was established on
Q.56 IBRD is also known as
* The world bank  * International bank for reconstruction and development
* Both of them  * None of them

Q.57 The objectives of IMF is/are
* To give loans to countries  * To give loans to banks  * to give loans to Companies
* All of the above

Q.58 The banking which takes place with the help of internet is called
* Online Banking  * Offline Banking  * Intranet banking  * None of the above

Q.59 The international money created by IMF is called
* Dollar  * Euoro  * SDR  * None of the above

Q.60 The Credit card are used
* To purchase goods through ATM  * To purchase goods on account
* To purchase assets for cash  * None of the above