

ISQ Examination (Summer-2012)

Lending Products, Operations & Risk Management – Stage-II

- Q. A) Define open-ended and close-ended guarantees.
- Q. B) State the features of a bank guarantee.
- Q. A) Explain the advantages and disadvantages of fixed rate lending for
 - i. Lenders.
 - ii. Borrowers.
- Q. B) What is meant by interest rate risk?
- Q. A) What are the benefits of maintaining a due-date diary for obtaining periodic documents from the borrower?
- Q. B) How is facility monitoring system applied on regular accounts? State any THREE ways.
- Q. A) Write any TWO similarities of restructuring and rescheduling of an NPL account.
- Q. B) Write any THREE differences between restructuring and rescheduling of Non-Performance Loan (NPL) account.
- Q. A) What is the purpose of a bank's credit policy?
- Q. B) List any FOUR components and explain any TWO.
- Q. When a bank decides to lend to a customer, the decision has an impact not only on the customer but others around him as well. Explain the impact that is created when a bank lends to a
 - A. Corporate Customer.
 - B. Individual Customer.

Q. You are a Relationship Manager at a medium commercial bank. Faisal & Co. a private limited company engaged in towel manufacturing and export business approaches you for establishing pre-shipment lines for Rs.300.0 million. As a security, the customer is offering charge over current and fixed assets of the company.

List the specific documents required.

- A. At the time of approval
- B. After approval and before disbursement

Q. A) From the following data, evaluate the trend of financial ratios of Progressive Textiles Limited, a prospective borrower, to arrive at a decision. Provide justification for your decision to lend or not to M/s Progressive Textiles Ltd.

Financial ratios of the Progressive Textiles Limited			
	2011	2012	2013
Current ratio	1.19	1.25	1.2
Acid-test ratio	0.43	46	0.4
Average collection period	18	22	27
Inventory turnover	8	7.5	5.5
Total debt/equity	1.38	1.4	1.61
Long term debt/total capitalization	0.33	0.32	0.32
Gross profit margin	0.2	0.163	0.132
Net profit margin	0.075	0.047	0.026
Total asset turnover	2.8	2.76	2.24
Return on assets	0.21	0.13	0.06

Q. B) Suppose that your decision is in negative but the bank decides to lend anyway, how will it mitigate the risk?

Q. What is a well diversified risk portfolio? Elaborate the importance of a well diversified risk portfolio.
