Q.1 By exploring answers to certain potential questions relating to the prospective borrower, a lending institution can achieve the main aim of successful lending. List at least five such relevant questions.

Q.2 Bank A approved a working capital finance of Rs.50 million to M/s Hamilton Chemical Co. Ltd. against pledge of stocks and floating charge on the assets of the company. At the initiative of the lead bank, Banks 'A', 'B', 'C', 'D' and 'E' agreed to join hands in this facility by sharing 1/5 of the loan amount individually. In light of this lending arrangement answer the following questions.

A. Describe the concept of consortium finance. Explain why consortium financing is used by banks and list the responsibilities of the lead bank.

B. List at least 10 documents to be collected and executed by the lenders for the proposed facility.

Q.3 Explain the methodology of market-based cost of fund that is encouraged by the regulator and considered more transparent for pricing of bank's lending products.

Q.4 List at least five parameters specified in the Prudential Regulations (commercial/corporate) for eligibility of finance to a prospective borrower.

Q.5 You are a credit analyst at Awami Bank and you receive an approved credit memo from your Departmental Head with a note saying, "Please process the loan after building appropriate loan covenants/terms."

You read the credit memo, the salient features of which are:

- The company is a soap manufacturer and has been in business for the last 7 years but is a new customer for the bank.
- The company has recently expanded its capacity and is now looking to export to Middle Eastern countries apart from sales to Central Asia.
- The company allows a dividend of PKR 25 million from the business every year but has not done so in 2012.
- Market check of the customer has not been documented.

Financial snapshot is as under:

Liabilities	**2012**	**2011**	**Assets**	**2012**	**2011**
Accounts Payable	45,000	28,000	Cash	100,000	85,000
Notes Payable	55,000	36,000	Short Term Inv.	75,000	63,000
Accruals	12,000	30,000	Accounts Receivable	205,000	180,000
			Inventories	70,000	65,000
Current Liabilities	**112,000**	**94,000**	Current Assets	**450,000**	**393,000**
Long Term Debt	200,000	250,000	Net Fixed Assets	500,000	467,000

Equity	638,000	516,000			
Total Liabilities & Owners Equity	**950,000**	**860,000**	Total Assets	**950,000**	**860,000**

Income Statement	**2012**	**2011**
Sales	900,000	750,000
Cost of Goods Sold	530,000	420,000
EBIT	127,000	160,000
Interest Expenses	24,000	30,000
Net Income after tax	**75,000**	**90,000**

Based on the information provided, you are not comfortable with allowing them credit.

A. Highlight FIVE potential causes of concern.
B. Make the loan covenants to mitigate the causes highlighted above.

Q.6 A. Discuss the relevance of facility monitoring.
B. List any 3 ways used by banks/DFIs to achieve this objective.

Q.7 Bankers very often compute several types of ratios to understand the financial strengths of a prospective borrower.

A. Highlight any 4 reasons/benefits of calculating ratios.
B.What is the difference between profitability ratio and operating ratio? Explain with the help of examples.
C. What 4 ratios would you calculate for a manufacturing concern, as a lender?
D. What 4 ratios would you calculate for a services concern, as a lender?

Q.8 A. State any TWO benefits of Loan Loss Reserve/ Provisioning?
B. What is loan classification, its determinants and provisioning requirement as stated in SBP's guidelines for classification and provisioning of assets?