

Important Topics Exposition:

[The important information of this chapter has been provided here at a glance.]

A. Concept of Central Bank:

Central bank is the custodian, regulator and director of all other banks. It is the life-blood of the whole banking system. It is mainly created to regulate money market. Generally circulation of currency, supply of money and special power of regulating loan are the main functions of central bank. In Bangladesh 'Bangladesh Bank', in England 'Bank of England'; in Japan 'Bank of Japan' play the role of central banks.

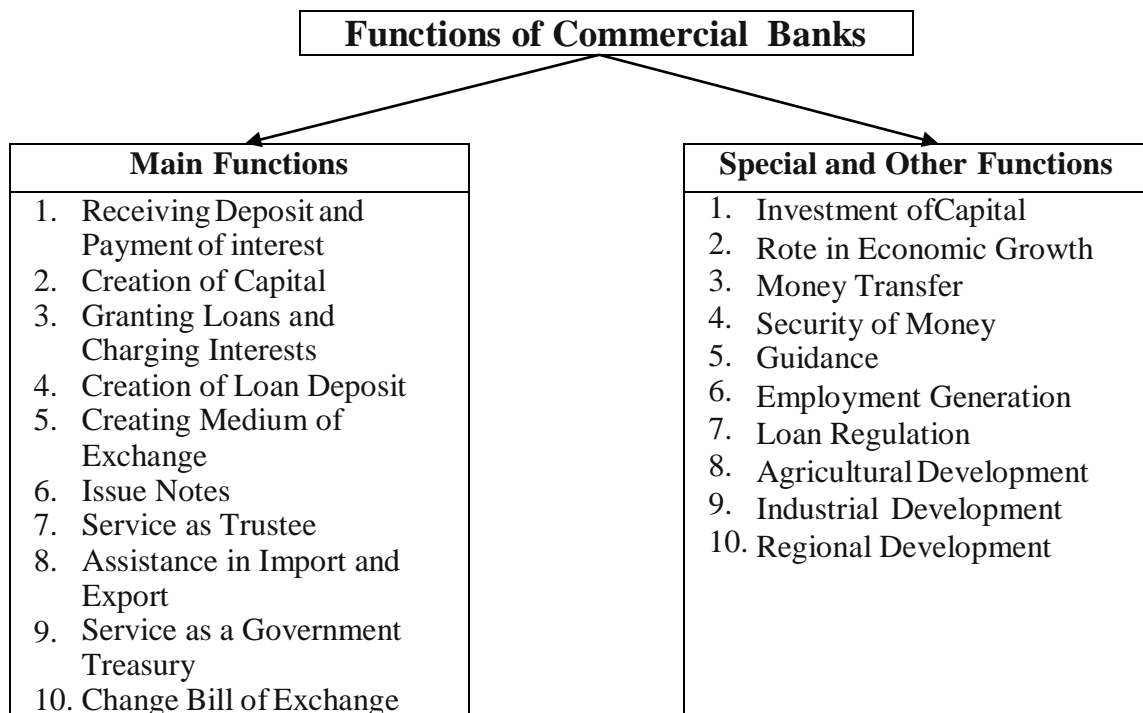
B. Concept of Commercial Bank:

The bank which collects people's money as deposits and invests it as loan for earning profit is called a commercial bank. For example: National Bank Limited, Dutch-Bangla Bank Limited etc.

C. Functions of Commercial Banks:

As a monetary organization, bank provides various kinds of service in industrial, commercial, social and economic development of a country. We can divide the functions of banks into two categories:

- i.** Main Functions
- ii.** Special and Other Functions



D. Sources of Funds of Commercial Banks:

Commercial banks usually collect funds from the following sources, some of which are external sources and some of which are internal sources.

- 1) **Paid Capital:** First and foremost source of banks is paid capital. The capital is provided by the owners for joint stock Company, and in cases of joint capital company, capital is formed by issuing shares.
- 2) **Reserve fund:** At the time of declaring dividend, a certain portion of the profit is set aside every year which is called reserve fund. This fund is used as capital in future.
- 3) **Deposits:** Public deposits are a powerful source of funds to a commercial bank. There are three types of bank deposits (i) current deposits (ii) saving deposits and (iii) time deposits, which the clients do not withdraw all at once. So, the bank can earn more capital by using this money as loans or business investment.
- 4) **Borrowing:** Commercial banks in times of emergency borrow loans from the central bank or from other commercial banks of the country. They can also raise funds by issuing security bonds, credit certificates etc.

E. Sources of Income of Commercial Banks:

Commercial banks earn money through different businesses, which are detailed below -

- 1) **Interest on Loans:** Commercial banks lend money to the industrialists, traders or consumers, and charge interest on the loans. This is their main source of their income.
- 2) **Investment:** Commercial banks earn profit by investing in profitable sectors like shares, issuing letters of credit, government security etc.
- 3) **Bill Discount:** Commercial banks also earn money by making discounted payment of bills of exchange in advance.
- 4) **Commission Received from Bank draft, Traveler's cheque etc.:** Commercial banks earn a big amount of money by charging commissions on bank drafts, traveler's cheques etc.
- 5) **Correspondence:** Commercial banks also earn money through charges received by offering various correspondence services for the clients at their request.
- 6) **Rent of Lockers:** People can use lockers of commercial banks for safekeeping of their valuable documents, ornaments etc. by paying certain charges, which is also a source of income of the commercial banks.
- 7) **Agency Service:** Commercial banks perform numerous agency services on behalf of their clients, such as collection and payment of cheques or bills etc. Commercial banks charge commission for such services which earn income for them.
- 8) **Brokerage in Purchase or Trade of Shares:** Banks also earn through brokerage in purchasing or trading shares.
- 9) **Foreign Exchange:** Commercial banks earn profit by buying and selling foreign exchange.

- 10) **Import-Export:** Commercial banks earn income through commission or service charges for the role it plays in international trade and transactions.
- 11) **Letter of Credit:** Banks charge commissions for issuing letters of credit on behalf of importers.
- 12) **Trustee:** Banks also charge commissions for performing services as trustee.

F. Expenditures of Commercial Banks:

Commercial banks make following expenditure in operating its business:

- 1) Giving interest to the central bank on the borrowed amount
- 2) Giving interest to commercial banks for the received loans
- 3) Payment of salaries and allowances to the employees
- 4) Allowances of directors and managers
- 5) Auditor's charges
- 6) Charges for cases or other legal measures for collecting unrecovered loans
- 7) Giving interest to the clients on their deposits

CQs for Self-assessment:

1. 'A Bank' collects the deposits from the clients and provides loan to the other people on business institution from that deposits. Recently a person applies for a 5 lack Taka loan from that institution. Through he is able of pay the loan but the information supplied by this person related to loan, is suspicious to bankers.
 - a) What is the main source of income of Commercial Bank?
 - b) Describe the liquidity principle of bank.
 - c) What type of bank is 'Bank A'? Discuss.
 - d) At the time of providing loan to that person a banker of 'A Bank' should consider which principals of business do you think? Give your opinion.
2. A bank named 'Gomti Bank' has been set up taking the permission of Bangladesh Bank for Agricultural Development of Rangpur Division. This bank has been distributing loan to the farmers for purchasing fertilizer, seeds and insecticides from its establishment. Later this bank wins the faith of people by giving and recovering loan from the people. Recently a reputed businessman submitted an application for loan when falling into financial crisis. Bank sanctioned a large loan to him without analyzing his financial conditions and any security. Later, the bank could not recover the loan properly and the relation of the bank with him become worse..
 - a) What is barter system?
 - b) Why the currency is called the mother of the bank system?
 - c) At first what type of bank the 'Gomti Bank' is established based on regional classification of bank?
 - d) Evaluate the reason of downfalling the relation between Mr. Shahin and Gomti Bank on the basis of banking principles.
3. Shohag is a student of business faculty in Dhaka University. He has been given to complete an assignment on banking by a bank and this bank is leader, king of other bank name is 'Surjo Bank'. This bank supervise to others bank so that the banking sector remains balanced and disciplined.
 - a) Which acts as the head of banking business in Bangladesh?
 - b) What do you mean by central bank?
 - c) The bank in the stem is what type of bank? Describe it.
 - d) Evaluate the role of bank in the stem to develop the banking sectors in the country.