

St. Mira's College for Girls,
(Autonomous-Affiliated to Savitribai Phule Pune University)
Class: FYBCOM
Subject: Banking and Finance
Subject Code: AC21507
SEM II
(2017-18)

Unit 1: Lending and Investment Functions of a Bank
Skill Development – Analytical ability - to decode the Principles of Lending and Investment to be followed by a Bank

0712 = $\frac{08}{10}$ MSB

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Banking and Finance (F.Y.B.Com - SEM II)
Fundamentals of Banking and Finance (2017-2018)
(Flexi Test 2) Set 04 Total Marks: 10
Name: ALFARA S. SHAIKH Roll No.: 3016 (A).
Quiz

State and explain the Principles of Lending and Investments, relating to the following statements:

- ✓ 1. This principle implies easy convertibility into cash.
→ (Liquidity)

The principles of liquidity are as follows :-

In simple terms liquidity means steady/easy convertibility into cash within the shortest time possible and at least the cost.

According to sayers :- "Liquidity is the term used to describe the ability of a bank to satisfy the demand for cash."

h From this angle cash in hand and cash at bank (cash reserve ratio) has the highest liquidity. another important feature of a liquidity is shiftability i.e. ability of a bank to shift the assets to the other bank or the central bank of a country for eg. RBI.

From this angle bills of exchange has got the highest liquidity for any bank as compared to cash credit, loans, overdraft.

Thus a banker's strength is Judge by its ability to command liquidity and therefore the assets of a bank are arranged in descending order of liquidity for eg:- cash in hand, cash at bank, money at call and short notice, cash balances of other bank Investments, loans, advances etc.



Jk
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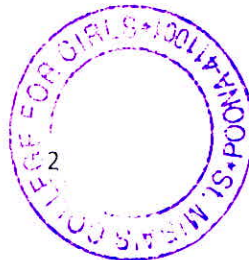
2. A bank should avoid investing all its money in one industry.

→ Diversification of risk

This is another very important principle of lending and Investment to be followed by a bank according to this bank a prudent banker should avoid investing all its funds in one industry or a small group of industry or in a particular line of business or in a few securities. Similarly it should not lend money in one particular group of individuals or industry and lend against particular type of security.

In other words a bank should avoid putting all its eggs in one basket. If an industry is a failure or the market value of a particular security fluctuates widely, the banker should not suffer a major loss.

Meenakshi Wagh MSWagh
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