

Chapter-2

(Commercial Banking)

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Definition of Commercial Banking

As per the commercial bank definition, it is a financial institution whose purpose is to accept deposits from people and provide loans and other facilities.

Commercial banks are basically profit making institutions.

According to N.T. Somashekar - “Commercial banks are those which provide banking services for profit.”

So, finally we can say that , A commercial bank is a financial institution that provide banking services for profit.

Objectives of Commercial Banking

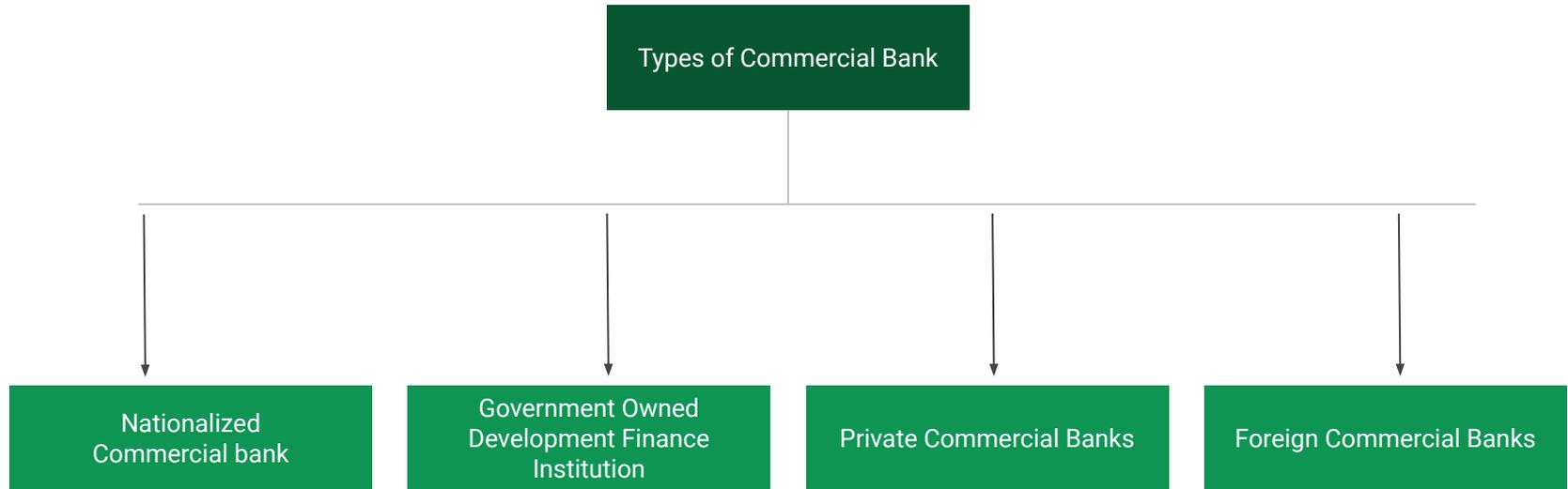
The objectives of commercial bank are given below-

- 1. Profit Maximization:** To establish as an institution for maximising profits and to conduct overall economic activities.
- 2. Collect savings:** To collect savings or idle money from the public at a lower rate of interest and lend these public money at a higher rate of interest.
- 3. Create Propensity of savings:** To create propensity of savings amongst the people.
- 4. Bringing Solvency:** To motivate people for investing money with a view to bringing solvency in them.
- 5. Enhancing supply of money:** To create money against money as an alternative for enhancing supply of money

- 6. Build up capital:** To build up capital through savings
- 7. Expedite investment :** To expedite investments.
- 8. Extend services:** To extend services to the customers.
- 9. Maintain economic stability :** To maintain economic stability by means of controlling money market.
- 10. Assist the Govt. :** To assist the Govt. for trade and business and socio economic development.



Structure of Commercial Bank in Bangladesh



A.Nationalized Commercial Bank: Public commercial Bank enjoys the oligopoly right because of few numbers of banks and there is legal barrier to entry. There are only four nationalized banks operating in Bangladesh.

1.Sonali bank

2.Janata Bank

3.Agrani Bank

4.Rupali Bank

B.Government development financial institution: These types of banks are government owned development financial institution. It aims at industrial and agricultural development of a country.Only four specialized banks are working in Bangladesh .



1. Bangladesh Krishi Bank.
2. Rajshahi Krishi Development Bank.
3. Bangladesh Shilpo Rin Shaghashta.
4. Basic Bank Limited.

C.Private Commercial Bank: The commercial bank performs in perfectly competitive industry. There are large number of private commercial bank. There are 40 commercial banks operating in Bangladesh.

1. Pubali bank
 2. Uttara bank
 3. Arab Bangladesh Bank
 4. National Bank
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5.The City bank limited

6.Islamic Bank Limited

7.IFIC Bank Ltd.

8.United Commercial Bank Ltd

9.Dhaka Bank

10.NCC Bank

11. Prime Bank and so on.



D.Foreign Commercial Bank: A foreign branch bank is a type of foreign bank that is obligated to follow the regulations of both the home and host countries.

- 1.American Express bank
- 2.Standard Chartered bank
- 3.Habib Bank
- 4.State bank
- 5.National Bank of Pakistan
- 6.HSBC and so on.

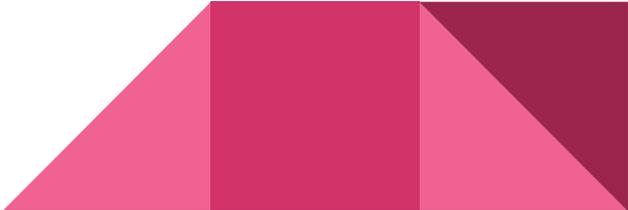


Functions of Commercial Banks

Primary Functions:

1. Accepting Deposits: The most important function of commercial banks is to accept deposits from public. This is the primary functions of a commercial bank.

A commercial bank accept deposit from public on various account, important deposit account generally kept by bank are:



- ❑ **Saving bank deposits:** This type of deposits suit to those who just want to keep their small savings in a bank and might need to withdraw them occasionally. One or two withdrawals upto a certain limits of total deposits are allowed in a week.



- ❑ **Current Deposits:** This type of account are generally kept by businessmen and industrialists and those people who meet a large number of monetary transactions. This deposits are known as short term deposits. Usually no interest is paid on these deposits.
 - ❑ **Fixed Deposits:** These are also known as time deposits. In this account a fixed amount is deposited for a fixed period of time. Customers keep their money in fixed deposits with the bank in order of earn interest. The banks pay higher interest on fixed deposits. The withdrawals are not allowed from fixed deposits before the stipulated date.
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❑ **Other Deposits:** Banks also provide deposit facilities to different types of customers by opening different accounts. **Home safe account for housewife** or very small savers.

2. Advancing of Loans: The second main function of the commercial bank is to advance loans. Money is lent to businessmen and trade for short periods only. The bank advances money in any one of the following forms:

❑ **Cash Credit:** Cash Credit is a type of advance wherein a banker permits his customer to borrow money up to a particular limit by a bond of credit with one or more securities.



- ❑ **Overdraft:** An overdraft is an arrangement by which the customer is allowed to overdraw his account. The facility to overdraw is allowed through current account only.
- ❑ **Loan:** Loan is an advance in lump sum amount the whole of which is withdrawn. It is made with or without security. It is given for a fixed period at in agreed rate of interest. Repayment may be made in installments.
- ❑ **Discounting Bill of Exchange:** The bank also gives advances to their customers by discounting their bills. The net amount after deducting the amount of discount is credited to the account of customer.

3. Investment of funds: Besides loan and advances, banks also invest a part of its funds in govt. and industrial securities. Banks purchases both govt. and industrial securities like govt bills, share, debentures etc.

4. Credit creation: The banks create credit. When a bank advances a loan, it does not give cash to the borrower. It opens an account in the name of the borrower.

Secondary Functions: It is divided into two parts:

A. Agency Services: Modern banks provide services to the individual or to the business institutions as an agent. These services are as follows-



- ❑ **Remittance of funds:** Banks help their customers in transferring funds from one place to another through cheques and drafts.
 - ❑ **Collection and payments of credit Instruments:** Banks collect and pay various credit instruments like cheques, bill of exchange, promissory notes etc.
 - ❑ **Purchasing and sale of securities:** Banks undertake purchase and sale of various securities like shares, bonds, debentures etc.
 - ❑ **Income Tax consultancy:** Sometimes bankers also employ income tax experts not only to prepare income tax returns for their customers but to help them to get a refund of income tax in appropriate cases.
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B.General Utility Services: A modern bank nowadays serves its customers in many other ways:

1.Locker facilities

2.Travelers cheques

3.Gift cheque

4.LC

5.Foreign Exchange

6.Collection of Statistics



Modern Functions of Commercial Banks:

- It issues Credit cards, Debit Cards, Smart Cards etc.
- Changing Cash for Bank deposit and bank deposits for cash.
- Providing 24 hours facility of payment through ATMs
- Transferring Bank deposit between individual or companies.

