

# Training banking: training kit case study

[Literature](#), [Russian Literature](#)



Having been granted the opportunity to administer consultancy services to your bank specifically in regard to the new staff training and orientation towards their new roles at the Commercial Lending Department in respect of small businesses, I submit the following training manual for use. The manual explains the reasons and application of analysis and gives examples of statements to analyse. The staff is advised to incorporate other financial information and competencies relevant to the lending department.

### **Reasons for Bank Analysis of clients' statements and Information**

In any commercial transaction in banking, the overriding objective often is that the bank should be able to make profits. The concept of profit maximisation is a fine thread that weaves through all facets of business. In the lending department, the objective which is in-line with the profit maximisation objective is that staff identify worthy clients who have the requisite three Cs. These are collateral, credibility and character. Collateral is the presence of assets that would be used to offset the outstanding loan in the event the client defaults. Credibility represents the ability and worthiness of the client to afford the expected payments in instalments while character refers to the general performance of the client in as far as matters credit is concerned. The three Cs are fundamental in arriving at a decision to give out the loans. Often, the bank must satisfy beyond any doubt that their clients are competent and able to be trusted with lending capital. This could be a risky endeavour and the staff at the lending department must approach work with professional scepticism. In attempts to achieve this objective, staff are

advised to analyse a number of statements of accounts so as to tell among other factors, the credibility, the character and the collateral with the client.

## **Application of Analysis to Lending**

The statements to be analysed include but are not limited the following: cashflow statements, cashflow forecasts and ratio analysis of financial statements. These statements are analysed with the intention of finding out the collateral, credibility and character of the client. The cashflow statement shows the previous cashflows, that is, cash inflows and outflows. It gives the bank a brief impression of the client's interaction with cash. The bank consumes this information and applies it to predict the likelihood of that the client would be able to afford the instalment amounts. This is because the level of inflows and outflows can easily tell how much is earned and retained and could, therefore, be applied in payment of instalment. In addition to the cashflow statement, the bank examines the cashflow forecasts. The forecast basically predicts the expected cash inflow and outflow after receipt of the loan.

Ordinarily, receipt of the loan is expected to increase the inflows and outflows levels. This is because, with the loan, the client is able to indulge in more business and henceforth increase in business activity. The forecast also shows the intended use of the loan facility. The bank consumes this forecast for purposes of determining the likely consequences of the loan. The bank must interrogate the viability of the activities proposed in the forecast so as to determine whether the client would have credibility to pay back the loan. In addition, the bank should be in a position to offer advice on what changes need to be adopted and why. This, probably, is the most pronounced

application of analysis by the lending department. It is at this point that the bank through the lending department arrives at the conclusion as to whether to give the loan and exactly how much would be prudent to give out.

In addition to the cashflow forecasts and the cashflow statements, the bank should extensively carry out a ratio analysis employing the previous financial statements for the last three to two years of the client's business concern.

The ratios give a wide range of information and supported by the two other statements, it goes deep in showing the credibility and character of the client's concern. Of particular interest to the bank should be the profitability ratios, efficiency ratios and liquidity ratios. The profitability ratios are those that show the relative performance of the concern over a series of years and the liquidity ratios demonstrate the concern's liquid position which would be helpful in determining the credibility of the concern. Bank staff need to consume this information and apply the same in the decision making concerning lending. Banks would not want to engage a highly levered firm, that is, a firm with too much debt already. In addition, the bank must not entertain firms with low profitability performance showcased by low profitability ratios. Ratio analysis, therefore, inform the decision making process and must be applied in analysis.

Other than the mentioned statements, the bank must examine bank statements, conduct third party consultancy to obtain the general performance of the client in the market and industry, communicate with the client's independent auditor and if need be request for a statement of affairs from the audit office and lastly engage the client's market to forecast the

levels of competition in the industry. These, among others, would be useful towards arriving at the best decision in as far as lending is concerned.

## **Examples of Financial Analysis**

In this section the paper would apply samples of financial analysis with a concentration on three main statements, the statements of cashflows, the cashflow forecast statement and the financial ratios derived from the comprehensive incomes statement and the statement of financial position. The statements shall be accompanied by the likely decision that the bank should arrive at in respect of the state of financial affairs in reconciliation with the requested loan. Client X Comprehensive Income Statement for Year ended 31/12/2012

## **Statement of Financial Position of X for Year Ended 31/12/2012**

Statement of Cashflow for X for the Year Ended 31/12/2012 / 2011

The statement of cashflow analysed in connect with the income statement and statement of financial position portray that the firm is a going concern that can service its debt and continue to make profits that are realisable in terms of liquid cash.

## **Statement of Cashflow Forecast for Year Ended 31/12/2013**

The major indication of the forecast is the intended purchase of a new machinery at Dhs. 1200000 which is expected to shore up the sales. In addition, the owner intends to plough into the capital an addition Dhs. 300,000. The bank should be convinced of the going concern position of the firm and its ability to generate revenue given the cashflow forecast.

## **Financial Ratios for Year Ended 31/12/2012**

The bank should examine the ratios with a bias on the profitability and liquidity ratios.

Profitability ratios:

Liquidity Ratios

## **Works Cited**

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