



MAULANA ABUL KALAM AZAD UNIVERSITY OF TECHNOLOGY, WEST BENGAL

Paper Code : FM 402 MANAGING BANKS & FINANCIAL INSTITUTIONS

UPID : 004689

Time Allotted : 3 Hours

Full Marks :70

The Figures in the margin indicate full marks.

Candidate are required to give their answers in their own words as far as practicable

Group-A (Very Short Answer Type Question)

1. Answer any ten of the following :

[1 x 10 = 10]

- (I) After the bank mergers the number of public sector banks at present is _____
- (II) What do you mean by CASA in Banking industry?
- (III) Define credit risk
- (IV) Providing Locker facility to customers is a _____ function of commercial bank.
- (V) Bank profitability decreases with _____ in liquidity
- (VI) Accepting deposits is a _____ function of Bank.
- (VII) Distinguish between Fund based and Fee based services offered by the commercial banks in India.
- (VIII) Higher is the interest rate _____ will be the inflation.
- (IX) In CAMELS rating the acronym stands for
- (X) Not adhering to proper KYC norms or creation of dummy accounts by bank officials is categorized as _____ risk
- (XI) Differentiate between Microfinance and Microcredit
- (XII) Briefly write the concept of recapitalisation of Banks

Group-B (Short Answer Type Question)

Answer any three of the following :

[5 x 3 = 15]

2. Distinguish between retail loan and corporate loan [5]
3. Briefly explain the functions of RBI [5]
4. Briefly explain the concept of loan pricing [5]
5. Explain the concept of capital adequacy ratio and risk weighted assets referring to banking sector. [5]
6. Determine the impact of change in 1% interest rate on a bank if it has risk sensitive asset (RSA) of Rs.10 Cr and risk sensitive liability (RSL) of Rs.12 Cr. using the concept of income gap analysis. [5]

Group-C (Long Answer Type Question)

Answer any three of the following :

[15 x 3 = 45]

7. Describe the important areas that a bank needs to focus in the present scenario in order to enhance profitability [15]
8. (a) What are the reasons of Asset liability mismatch in banking industry? [5]
(b) What are the reasons behind NPA in banks ? [5]
(c) Why rating institutes downgrade rating of banks ? [5]
9. (a) Explain Altman Z Score model as a credit risk assesment model [6]
(b) Using Altman Z score model suggest whether the following firm is safe or not to be extended any credit. [4]
Working capital = Rs. 2 Lakhs
Retained earning = Rs.4 Lakhs
Total Asset = Rs.4 Lakhs
Earnings before interest and Tax = Rs. 8 Lakhs
Total liability = Rs.1 lakh
Sales = Rs. 16 Lakhs
Market value of Equity = Rs.3 Lakhs
- (c) Explain the Concept of Risk adjusted return on capital (RAROC) and its significance in credit risk assessment. [5]

Suppose expected return by shareholders from a bank is 12%. The bank offered a loan of Rs.100000 to a customer in which the default rate is 6% and in such cases the recovery rate is only 30%. If the

net return from the loan is only Rs.4000 then determine the RAROC. Suggest whether loan to be granted or not.

10. (a) What are the various challenges banks have to face because of stiff competition. [8]
(b) Explain the concept of deregulation of interest rate for banks in India [2]
(c) Briefly mention about Economies of Scale and Economies of Scope with reference to banking business [5]
11. (a) On February 14th 2018, Punjab National Bank (PNB), disclosed that it had been defrauded out of roughly 1.8 billion dollars. This news shook the nation and all eyes turned to the culprit Nirav Modi, a rich diamond tycoon. The PNB scam is basically a case of financial fraud that was committed by Nirav Modi and his associates who colluded with senior Punjab National Bank employees. [5]
In the case of PNB, the LOU's were issued in favour of Nirav Modi bypassing the bank's reporting system using SWIFT messages to overseas banks without authorization. Nirav Modi, with the assistance of senior PNB officials, was able to obtain LOUs without submitting any securities. These LOUs were then submitted via SWIFT messages to banks in other countries.
For the past few years, two employees of PNB were sending unauthorised LOUs. This was until one of them retired and a new employee joined in his place. In January, when Nirav Modi's firm asked for a fresh set of guarantees, the new employee demanded collateral. The representatives from Firestar (Nirav Modi and co) responded by saying that they had never been asked for a guarantee in the past. This triggered an investigation which led to the curtains falling and the truth of the fraudulent LOUs coming to light.
Analyse the above case and suggest what kind of risk the PNB came across with proper justification.
- (b) From the above case explain the concept of letter of undertaking (LOU) and SWIFT and its role in international banking operation. [5]
- (c) Suggest the banking practices that may stop such fraudulent activities in a commercial bank [5]

*** END OF PAPER ***