Roll No…………

GL BAJAJ
Institute of Management & Research, PGDM Institute
Greater Noida
FIND YOUR SPARK

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POST GRADUATE DIPLOMA IN MANAGEMENT (2021-23)
END TERM EXAMINATION (TERM - V)

Subject Name: **Commercial Bank Management** Time: **02.30 hrs**
Sub. Code: PGF 52 Max Marks: **40**

Note:
All questions are compulsory. Section A carries 5 marks: 5 questions of 1 marks each, Section B carries 21 marks having 3 questions (with internal choice question in each) of 7 marks each and Section C carries 14 marks one Case Study having 2 questions of 7 marks each.

Kindly write the all the course outcomes as per your TLEP in the box given below:

CO1- Understand the functioning and working of Commercial Banks.
CO2- Apply and analyze various risk management tools to mitigate risk faced by banks.
CO3- Evaluate individual bank performance.
CO4- Identify and design Suitable strategies to mitigate risk faced by the bank to enhance profitability.

SECTION – A

Attempt all questions. All questions are compulsory. **1×5 = 5 Marks**

Questions	**CO**	**Bloom's Level**
Q. 1: (A). Compare Basel I and Basel II on the basis of Complexity and Risk.	CO1	L-2
Q. 1: (B). Discuss utility of Credit Derivatives in Banks.	CO1	L-1
Q. 1: (C). If, liquidation value of firm is above the market value, what does it explains?	CO1 CO1	L-1 L-1
Q. 1: (D). Comment on the relevance of CRR	CO1	L-1
Q. 1: (E). Discuss the application of Cost plus Margin Deposit Pricing (Entire Sec A to be assigned one CO.)		

SECTION – B

All questions are compulsory (Each question have an internal choice. Attempt any one (either A or B) from the internal choice) **7 x 3 = 21 Marks**

Questions	**CO**	**Bloom's Level**
Q. 2: (A). Why are Non Banking Financial Companies valuable to financial system? Can their failure cause systematic risks?	CO2	L3
Or		
Q. 2: (B). Why is it a prudent policy to separate credit appraisal and sanctioning from the workout function?	CO2	L2
Q. 3: (A). (i) Explain the working of Repos in India. (ii) Assume a bank enters a reverse repo agreeing to buy treasury bills from another market participant at a price of 1 crore, with an agreement to sell back the securities at a price of Rs. 1,00,09,000 (interest being 9000) after 5 days. Calculate the yield on the repo transaction to the bank.	CO3	L4
Or		
Q. 3: (B). Examine the various components of Credit risk Model.	CO3	L4

Q. 4: (A). Critically **c**ompare major banking reforms suggested in The Narasimham Committee I and II. **Or**	CO3	L4
Q. 4: (B). The bank X wants to charge floating rates for its borrower since it expects interest rate volatility in the near future. The present prime rate is 10 per cent. The bank wants to charge a premium of 400 bps over the prime rate. Which method of arriving at the floating rate should it use-prime plus or prime times? Which pricing method would benefit the bank more when the prime rate (a) moves up by 100 bps (b) falls by 100 bps	CO3	L4

SECTION – C

Read the case and answer the questions **7×02 = 14 Marks**

Questions	**CO**	**Bloom's Level**
Q. 5: Case Study: In 2010, the financial crisis that had originated in 2007 in the USA, had spread well into Europe. The European markets watched aghast as uncertainty about the quality of banking assets intensified, and liquidity with banks dried up. The European Central Bank (ECB) had already been responding to the situation by meeting funding requests from financial institutions in the Eurozone. It injected 95 million euros into the money market to bolster liquidity in the interbank money market. It also created new credit supports through long term refinancing operations that offered loans with three, six and twelve month maturities, over and above the Main Refinancing Operations (MRO) based on repos, with one week maturity. The additional liquidity infusion did calm the markets, but had the opposite effect on inflation, which rose to 4% by mid 2008. But the subsequent collapse of Lehman Brothers sent shock waves and the European banking system stared at deteriorating degree of confidence in the banking sector. ECB stepped in to lower the MRO interest rate, and also change the way in which liquidity was provided. Though this measure did have an impact, the economy was in a freefall, and euro inflation plummeted to 0%. In mid 2009, ECB announced a programme for outright purchase of 60 billion euros in commercial covered bonds. The move energized the markets. While ECB was busy dealing with liquidity in the banking sector, the national governments were involved in addressing solvency of the banking sector. The Bank of England, for example, nationalized Northern Rock, having been unable to find a buyer, and recapitalized RBS and Lloyds. The Irish government increased deposit guarantees in major banks, soon followed by other European nations with deposit guarantee schemes of their own. The French and Netherlands governments set aside funds for bank recapitalization, while the German government created a stabilization fund to provide loan guarantees. But another kind of tragedy was ailing countries like Greece, Spain and Portugal. While national governments were responsible for their banks' financial solvency, Greece, for example, was becoming insolvent. The public debt of Greece stood at 113% of its GDP. In April 2010, Greece sought refinancing of 22 billion euros in debt from ECB that had to be rolled over the following month. The country's sovereign debt had been downgraded to junk status. The crucial decision for ECB If Greece were allowed to default, it would affect more than just Greece. Financial markets would fear that more countries would	CO4	L5

default, which would increase borrowing costs and lead to mass defaults. The debt contagion could spread beyond the Eurozone. Further, the global financial system was so fragile, that the Eurozone itself could collapse if Greece were allowed to leave the system. More importantly, the European ideal of solidarity between member states would be severely damaged. On the other hand, ECB was a central bank that was responsible for price stability in the Eurozone through its monetary policy. It was not responsible for issues of fiscal solvency in member states. However, it had the authority to purchase sovereign debt. If ECB did not intervene, the existence of the euro as common currency could be threatened, as the contagion could spread to other countries in the Eurozone. However, a bailout for Greece had its downsides. Greece was not in a position to repay its debt due to its fragile fiscal position even if a bailout was temporarily
granted. It would also create the problem of moral hazard, in that it would tantamount to rewarding irresponsibility of the governments, and would create a precedent for Greece to ask for more such bailouts in future from the ECB and
the IMF. Other countries too would consider this a precedent for their debt woes. The ECB's formal objective was to maintain price stability within the Eurozone, not bailing out member countries from debt traps. In order to maintain price stability and protect the unified euro, the central bank required insulation from political pressures. But the move to support one member state would be construed as ECB bowing to political pressure. If ECB went ahead with the bailout, an irrevocable precedent would be created that would force it to respond to every subsequent fiscal crisis in the Eurozone member states.

Questions:
Q. 5: (A). Does monetary policy influence price stability? How?
Q. 5: (B). The financial crisis started as a credit crisis in the USA.
What is the effect of credit crisis that happens in the banking system of a country on sovereign debt? What is the chain of events that turns credit crisis into sovereign debt crisis?

Kindly fill the total marks allocated to each CO's in the table below:

Cos	Marks Allocated
CO1	5 Marks
CO2	**7** Marks
CO3	14 Marks
CO4	14 Marks

(Please ensure the conformity of the CO wise marks allocation as per your TLEP.)

Blooms Taxonomy Levels given below for your ready reference:

L1= Remembering
L2= Understanding
L3= Apply
L4= Analyze
L5= Evaluate
L6= Create