



**Institute of Management
JK Lakshmipat University, Jaipur
MID TERM EXAMINATION II -2018**

B.Com H (V sem.) Principles & Practices of Banking & Insurance
Subject Code: FN 14
MM: 20Marks

Time: 1.5 Hours

Instructions: All questions are compulsory.

Section A

1. What do you mean by credit creation? Explain the maximum credit creation capacity of commercial bank with an imaginary example. (4 Marks)
2. Banks are the backbone for the development and economic growth of the country. Under the shed of this sentence explain the role of commercial bank in Indian economy development. (3 Marks)
3. After banking sector reforms, number of new innovations have introduced in Indian banking sector. Explain any 3 reform related to banking sector. Support your answer with facts and figures. (3 Marks)

Section B (Case Study)

On May 18, 2016, Punjab National Bank (PNB), the third largest Public Sector Bank (PSB) in India, reported Rs. 53.67 billion quarterly losses in the quarter that ended in March 2016 against the Rs. 3.06 billion profits for the same period in 2015. This was the largest ever quarterly loss reported by any bank in India. PNB also reported a steep rise in Gross Non-Performing Assets (GNPAs), which increased from 8.47% of advances in the previous quarter to 12.9% of advances in the fourth quarter of financial year 2016 (FY16). In value terms, NPAs had increased by Rs. 214.8 billion to Rs. 558.18 billion in the fourth quarter of FY16. PNB also increased provisioning for bad debts from Rs. 32.81 billion in the fourth quarter of FY15 to Rs. 113.8 billion in the fourth quarter of FY16. PNB was not the only bank to report this kind of performance. All Scheduled Commercial Banks (SCBs), especially PSBs, reported higher NPAs in FY16. Due to various reasons, the total stressed assets, which stood at 9.8% at the end of March 2012, increased to 11.06% by March 2015 and then to 14.5% by the end of December 2015. , This affected the growth in the net profit of the SCBs, which declined from 2011-12 and led to a fall in the ROA and the ROE of banks.

P.T.O.

Here were many environmental factors which were responsible for the high growth of NPAs in India. Rajan became the RBI governor in September 2013 and from day one, he focused on the NPA problem of the Indian banking system. In his very first speech as the governor, he said, "We have to improve the efficiency of the recovery system, especially at a time of economic uncertainty; we have to take a close look at rising NPAs and the restructuring/recovery process."

Questions:

1. What is NPA? How Punjab National Bank classified its any asset to be a NPA among various assets? (2 Marks)
2. What you think, what are the factors that are responsible for hike in NPA. Explain any four in brief. (2 Marks)
3. Why increasing NPA is considered as an alarming sign for PNB along with banking sector (1Marks)
4. What legal measures PNB may opt for recovery and restructuring of its NPA. Explain any 2 methods related to recovery and restructuring in detail. (5 Marks)