



Institute of Management
JK Lakshmipat University, Jaipur
MID TERM EXAMINATION II -2019

B & F (V sem.) Banking Services & Operations

Time: 1.5 Hours

Subject Code: FN 28

MM: 20Marks

Instructions: All questions are compulsory.

Section A

1. Identify True/False, If false, mention right one. (Half marks each)

- a) Defaults under multiple banking arrangements are dealt under DRAT mechanism.
- b) Inspection of pledged security time to time comes under financial control regime.
- c) Operational risk of banks arises due to mismatch in inflow and outflow of funds.
- d) Interest rate risk arises due to cross country transactions.

2. India's banking system is characterized by the presence of NPA especially in PSBs. NPAs in the priority sector is higher than that of non priority sector. The stressed assets in the PSBs is nearly 3 times than in the private sector. The proportion of stressed assets in the total advances has increased in the overall banking sector by many folds.

Stressed Advances of Banks as a Share of Total Advance (%)

	March 2008	March 2017
Public Sector Banks	3.5	15.6
Private Sector Banks	4.2	4.6
Foreign Banks	3.0	4.5
All Banks	3.5	12.1

Major loans in this tenure (74%) were given to corporate clients which were mostly Indian MNCs while rest were given to retail clients and small traders whose ticket size of loan were majorly in multiplication of ten lacks and above but less than 50 lacks.

In the light of above case, answer the below listed questions:

1. What could be the possible reason behind corporate and retail clients default? (1.5 Marks)
2. What reasons you possibly find for mounting NPAs of PSBs compared to private sector banks? (1 Marks)
3. What probable techniques of NPA recovery, bankers can adopt in this case? Support your answer mentioning facts. (2.5 Marks)

3. How do you see recommendations of Narsingham Committee (phase 1 & 2) peculiar to banking sector reforms? From real facts and figures of Indian banking Industry based upon your

contemporary banking knowledge, mention actual implementation of recommendations majorly in areas of merger of banks and control on directed credit. (2 +1 Marks)

Section B
Case Study

Magadha National Bank has been a pioneer financial institution in development of India. Due to financial sector reforms, specially banking sector in terms of primary sector lending, bank did enormously in past three decades. For the purpose of intense financial inclusion, bank distributed manifold chunk of its funds to retail and corporate clients. Eventually bank faced an adverse situation of asset liability mismatch due to leaps and bounds NPA from last 4 years. But still, Board of Management contemplated this event, an outcome of adverse business cycle; not poor credit sanction and monitoring. They tried to convince shareholders in AGM that this situation will not exist longer and won't have any inauspicious impact on profitability as well as solvency of bank. Hence, as per their opinion financial statements needed not to make any adjustment related to NPA. After a lot of opposition, finally BoD agreed to take services of financial consultant to have a view upon this situation. Following important information were came across to consultant:

Non Performing Assets (in Millions)

Financial Year	2018	2017
Sub standard	9509	9693
Doubtful (upto 1 year) (40% unsecured)	4953	3535
Loss	5021	4583
Net NPA	4910	3542

After gauging all bank specific and macro economic variables consultant advised management for strong credit monitoring and recovery. It emphasized a strong need for provisioning of NPA so that book of accounts may show accurate operational and capital position.

Questions:

1. How you would differentiate NPA from performing assets? What you think, on what criteria different NPA classifications has been made in this case? (1+2 Marks)
2. Do you agree with the opinion of BoM that constant and rising NPA of Magadha National Bank would not affect profitability and solvency of bank? Support your answer with logical facts considering data of 2018. (2 + 2 Marks)
3. If you were the head of accounting department of Magadha National Bank what treatment in income statement of 2018 you would have been done for each NPA class and what would be the impact on capital as well? (3 Marks)