**Commercial Banking System and Role of RBI**

**April 2022 Examination**

**Q1. One of the important mandate of RBI is prudent management of monetary policy, curbing inflation and checking unemployment in economy. Explain how RBI achieves these diverse parameters by use of different tools available with it. (10 Marks)**

# Answer 1.

## Introduction

The Reserve bank of India uses monetary policy to maintain inflation in looking at even as selling economic growth. A 125-basis factor repo rate drop by way of the Reserve bank of India in 2015 will probably result in reduced lending and deposit prices from banks. During a repo, the RBI sells securities, repurchasing them at a predetermined fee. To get cash from the RBI, the central bank repurchases the guards from the banks. To position it truly, better repo rates imply higher interest charges charged with the aid of banks to their clients. High-interest rates imply

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**Q2. Credit appraisal is a critical analytical tool of bank. Largely the profitability of bank hinges on this tool. Any weakness on this front is reflected on the profitability of banks and it also results in accumulation of stressed assets. BASEL-II has given strong recommendations to check this menace. Elaborate in details the important recommendations of this committee. (10 Marks)**

# Answer 2.

## Introduction

The Basel Committee on Bank Supervision proposed global banking regulations known as Basel II to harmonize international banking laws. Additional standards for minimal capital necessities have been introduced through Basel II and described transparency necessities for banks' capital adequacy exams below Basel II. The number one distinction between Basel II and Basel I is that Basel II includes the credit risk of property held by financial institutions in calculating regulatory capital ratios. Worldwide banking policies primarily based on the three primary pillars of modest

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# Q3. Risk mitigation is one of the main function/concern of bank in volatile economy. In course of business banks face different types of risks which may vary from one bank to another.

# a. Which are the major risks banks are exposed to and how they mitigate it? (5 Marks)

# b. Suppose the regulator asks one of the losses making Bank XYZ to close a few branches to reduce cost thereby make the bank more sustainable/profitable. But XYZ Bank refuses to close its few branches, citing some risk/s involved in the process. What are the risks XYZ Bank perceives if it closes a few branches? (5 Marks)

# Answer 3a.

## Introduction

The capability of a bank to manage risk has a sizeable effect on the choices made by traders. With the enormous size of some banks, overexposure to chance can result in bank collapses that damage tens of millions of people. Governments should better understand the risks of banks if they're to inspire conservative management and decision-making.

**Answer 3b.**

**Introduction**

Risky decisions like cutting back at the range of branch locations XYZ bank takes must now not cross ignored. The bank has no longer yet decided to close down all of its locations across the USA for that reason. Making ready for a discussion of the issue requires knowledge of its