**Commercial Banking System & Role of RBI**

**April 2023 Examination**

**Q1. Both liquidity and profitability are important for bank to survive, but there is a tug of war between these two concepts. How is that if one increases the other decreases, explain the tradeoff position between above two variables? (10 Marks)**

**Ans 1.**

**Introduction**

The banking business is a tricky business, and it involves a lot of federal government treatments. The central bank of the nation manages all business banks. The Reserve bank of India manages India's business banks. The Reserve bank of India is India's reserve bank and has all the control of the commercial banks of India. Our country has various public industry and private banks, including SBI, PNB, Axis bank, HDFC bank, etc. Much like other businesses, banks additionally work to earn revenues. Banks do numerous activities through which they earn money. HDFC and

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**Q2. RBI rates the performance of banks on different parameters of acronym CAMELS. Explain the parameters on which banks are rated on scale of 1 to 5, 1 being the best performing bank and 5 being unsatisfactory/poorly performing bank, also explain the objectives of this rating. (10 Marks)**

**Ans 2.**

**Introduction**

Situated in Maharashtra, RBI serves the market in different means. The bank sets the overnight prime rate for business banks. The Mumbai interbank offer rate for Commerical banks acts as the standard for interest rate-ranked economic instruments in the country.

The primary purpose of the central bank is to carry out the guidance of the financial industry in the country, which includes business banks, monetary and non-banking establishments, introducing off-website security of financial institutions and banks, and strengthening the role of

**Q3. Non-Performing Assets (NPAs) in the Indian Banking sector has become the subject matter of concern and debate. High NPAs not only block the capital and business turnover but adversely affects the profitability of the bank. In recent years many new laws like SARFAESI Act 2002 & 2016, Insolvency and Bankruptcy Code 2016, BASEL 1, 2 & 3 regulations and regulatory bodies like DRT 1993, NCLT 2016 have been established to monitor and control NPA.**

**In light of above statements:**

**a. Spell out the major reasons for increase in NPAs since past years (5 Marks)**

**Ans 3a.**

**Introduction**

A nonperforming asset can be defined as a category for developments or funding in arrears or finances. Financing is an arrear when passion payments or principal are missed out on or late. Finance remains in default when the debtor cannot satisfy his commitments, and Lendor considers the funding arrangement

**b. Explain how SARFAESI Act helps the bank in recovery (5 Marks)**

**Ans 3b.**

**Introduction**

The SARFAESI act represents the "Securitization and Restoration of Financial Properties and Enforcement of Safety Interest Act". The SARFAESI act helps banks and banks public auction industrial or residential, or commercial properties to recover a car loan when a customer fails to pay the financing