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| **SESSION** | **February - March 2024** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **IV** |
| **course CODE & NAME** | **DBFI402,**  **Basel Regulations and Risk Management in Banking** |
| **CREDITS** | **04** |

**Assignment Set – 1ST**

**Questions**

**1. a) Summarize major functions of ALM.**

**Ans: Asset-Liability Management (ALM)** is a critical function within financial institutions, especially banks, aimed at managing the risks that arise due to mismatches between the assets and liabilities in terms of maturity, interest rates, and liquidity.

**Here are the major functions of ALM:**

**1. Interest Rate Risk Management Gap Analysis:** Identifies mismatches between the maturity and reprising dates of assets and liabilities to understand the institution’s exposure to

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**b) Rate Sensitive assets of a Bank as on 31.03.2024 are ₹ 800 cr @ 8% and Rate sensitive liabilities as on 31.03.24 are ₹ 1000 cr @ 5%. Calculate Gap as on 31.03.2024 and Net Interest Income of the Bank.**

**Ans: To calculate the Gap as on 31.03.2024 and the Net Interest Income (NII) of the bank, we need to follow these steps:**

**1. Calculate the Gap**

The Gap is the difference between the rate-sensitive assets (RSA) and the rate-sensitive liabilities (RSL).

It shows the bank's exposure to interest rate changes.

**Gap**

= RSA − RSL Gap

**2. ABC bank has a portfolio of Mortgage loan (Rs.5000 crores) and Credit card lending (Rs.1000crores) as on 31.03.2024.Risk weights assigned to Mortgage Loans is 20% and Credit Card lending is 50%. Compute RWA (Risk Weighted Assets) of the Bank and regulatory capital requirement if CRAR (Capital to Risk Weighted Asset ratio) is 9%.**

**Ans:To compute the Risk-Weighted Assets (RWA) of the bank and the regulatory capital requirement, we'll follow these steps:**

**1. Calculate the RWA for each asset class: Mortgage Loans:**

**Amount:** ₹5000 crores Risk Weight: 20% 𝑅𝑊𝐴 Mortgage Loans = Amount × Risk Weight RWA

Mortgage Loans ​ =Amount×Risk Weight 𝑅𝑊𝐴 Mortgage Loans = ₹ 5000 crores × 20 % RWA

Mortgage Loans ​ =₹5000 crores×20% 𝑅𝑊𝐴 Mortgage Loans = ₹ 1000 crores

RWA Mortgage Loans ​ =₹1000 crores

**Credit Card Lending: Amount: ₹1000 crores**

**Risk Weight:** 50% 𝑅𝑊𝐴 Credit Card Lending

= Amount × Risk Weight RWA

**3. Classify operational risk on the basis of causes and effects.**

**Ans:Operational risk** can be classified based on its causes and effects, providing a comprehensive understanding of the various sources and consequences of operational failures within an organization.

**Here's a classification of operational risk based on causes and effects:**

**1. Classification Based on Causes: a. Human Factors:**

**Employee Error:** Mistakes made by employees due to negligence, lack of training, or human error.

**Malicious Acts:** Intentional actions by employees, such as fraud, theft, or sabotage.

**Management Failure:** Poor decision-making or ineffective leadership leading to operational deficiencies.

**b. Process and Systems: Inadequate Processes:** Flaws or inefficiencies in operational processes, procedures, or controls.

**Technology Failure:** Disruptions or failures in information systems, hardware, software, or

**Assignment Set – 2ND**

**Questions**

**4. a) Briefly explain liquidity risk for a Bank differentiating between funding liquidity and market liquidity risk.**

**Ans:Liquidity** risk is the risk that a bank may not be able to meet its financial obligations as they come due without incurring unacceptable losses. It encompasses the possibility of being unable to fund assets or meet liabilities without experiencing significant losses or costs. Liquidity risk can be broken down into two main components: funding liquidity risk and market liquidity risk.

**1. Funding Liquidity Risk:**

**Definition:** Funding liquidity risk refers to the risk that a bank may not be able to obtain

**5. a) “Indian scheduled commercial banks are required to maintain a CAR of 9%.” Discuss.**

**Ans:The Capital Adequacy Ratio (CAR)** is a regulatory requirement that measures a bank's capital adequacy and financial strength. It is a crucial indicator of a bank's ability to absorb losses and meet its financial obligations. In India, scheduled commercial banks are required to maintain a CAR of 9%.

**Let's discuss the significance and implications of this requirement:**

**1. Capital Adequacy Ratio (CAR):**

**Definition:** The CAR is the ratio of a bank's capital to its risk-weighted assets (RWA).

**b) The risk weighted asset value of a Bank as on 31.03.2024 is ₹ 25000 cr. Capital of the Bank is Rs.2500 cr. Calculate CRAR (Capital to risk weighted asset ratio) of the Bank.**

**Ans:To calculate the Capital to Risk Weighted Asset Ratio (CRAR) of the bank, we'll use the formula:**

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**Given:**

**Total Capital (Capital of the Bank): ₹2500 crore**

**6. a) Explain “Haircuts” for calculation of Capital requirement for a Collateralized Transaction. (Basel II, pillar I, Credit Risk)**

**Ans:**In the context of Basel II regulations, "haircuts" refer to the reduction in the value of collateral accepted by a bank when calculating the capital requirement for a collateralized transaction, specifically in the calculation of credit risk under Pillar

1. Haircuts are applied to account for potential fluctuations in the value of collateral and to