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| **SESSION** | **FEB MAR 2025** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **III** |
| **COURSE CODE & NAME** | **DBFI301 BANK MANAGEMENT AND FINANCIAL RISK MANAGEMENT** |
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**Assignment Set – 1**

**Q1. a) Discuss important features of FEMA (Foreign Exchange Management Act,1999).**

**b) How much currency can you carry with you as a traveler abroad? 8+2**

**Ans 1.**

**a) Important Features of FEMA (Foreign Exchange Management Act, 1999)**

**Objective of FEMA**

The Foreign Exchange Management Act (FEMA), 1999 was enacted to consolidate and amend the laws relating to foreign exchange with the aim of facilitating external trade and payments. Its primary objective is to promote the orderly development and maintenance of the foreign exchange market in India. Unlike its predecessor FERA, FEMA focuses on management and liberalization of foreign exchange rather than strict regulation.

**Applicability and Scope**

FEMA applies to the entire country and to all branches, offices, and agencies outside India

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**Q2. Classify components of Indian Financial System. Elaborate on the role of financial institutions. 1+9**

**Ans 2.**

**Classification of Components of the Indian Financial System (1 Mark)**

The Indian Financial System is broadly classified into four key components:

1. **Financial Institutions** – These include banking and non-banking institutions that act as intermediaries between savers and borrowers.
2. **Financial Markets** – Organized platforms where buyers and sellers engage in trading of financial instruments such as stocks, bonds, and derivatives.
3. **Financial Instruments** – These are contracts or documents that represent financial

**Q3.a) Explain marginal cost of funds for a Bank. Relate marginal cost of fund and Marginal cost of Lending rate (MCLR) of a Bank.**

**b) If Cost of funds is 4%, Negative carry is 0.29%, Operating Cost is 2% and Tenor Premium is 1%, calculate MCLR for the Bank. 7+3**

**Ans 3.**

**Understanding Marginal Cost of Funds**

Marginal Cost of Funds refers to the incremental cost incurred by a bank to obtain additional funds. It represents the weighted average cost of new borrowings, which includes interest paid on deposits (savings and fixed), borrowings from other financial institutions, and other sources of funds. The concept ensures that lending rates reflect current market conditions

**Assignment Set – 2**

**Q4. “The ‘5C’s of credit’ provide an analytical framework for evaluating the credit quality of a company.” Analyze from a Banker’s viewpoint. 10**

**Ans 4.**

**5C’s Framework**

The ‘5C’s of credit’ form the foundation of credit analysis used by bankers to assess the creditworthiness of borrowers. This framework helps in reducing lending risk by thoroughly analyzing key qualitative and quantitative factors of a loan applicant. The 5Cs include Character, Capacity, Capital, Collateral, and Conditions. These elements together enable a comprehensive review of the borrower's ability and willingness to repay the loan.

**Character Assessment**

From a banker’s perspective, character refers to the borrower’s credit history and reputation.

**Q5.a) Identify the goals of stress testing for a Bank.**

**b) Summarize groupwise classification of Banks as required under stress testing guidelines issued by RBI. 7+3**

**Ans 5.**

**Goals of Stress Testing for a Bank**

**Stress Testing**

Stress testing is a crucial risk management tool employed by banks to evaluate the potential impact of extreme but plausible adverse events on their financial health. The goal is to assess a bank’s ability to absorb shocks arising from crises like economic downturns, market volatility, credit defaults, or sudden regulatory changes. It helps banks prepare for worst-case

**Q6.a) Differentiate between parametric and non-parametric VaR.**

**b) For a Rs.500,000,000 portfolio, the expected 1-week portfolio return (μ) and standard deviation (σ) are 0.00188 and 0.0125 respectively. Calculate the 1-week VaR with a 95% confidence level. (z-Score is 1.65 @ 95% confidence level). 2+8**

**Ans 6.**

**Difference Between Parametric and Non-Parametric VaR**

**VaR**

Value at Risk (VaR) is a risk management tool used to estimate the potential loss in the value of a financial asset or portfolio over a defined period for a given confidence interval. It helps banks and financial institutions assess and limit their market risk exposure. There are multiple methods to calculate VaR, including parametric and non-parametric approaches.

**Parametric VaR**

Parametric VaR, also known as variance-covariance VaR, assumes that the returns of the