

PGDM / PGDM (IB)
Management of Banks and Financial Institutions
DM-414 / IB-407
Trimester –IV, End-Term Examination: September 2014

Time allowed: 2 hrs 30 min

(total 5 pages)

Max Marks: 50

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
Total Marks			50

Section A:

1. a) Briefly describe how the monetary policy of a country impacts the management of commercial banks.
 b) Describe current regulations for managing concentration risk in Indian Banks. (3+2)
2. Concisely explain in about 40 words each :
 a) EAD
 b) VaR
 c) A Scheduled Commercial Bank (2+2+1))
3. Write differences between the following in the current context :
 a) Norms of income recognition and Norms for provisioning for assets
 b) Classification norms for Standard assets and Substandard assets
 c) Provisioning norms for standard assets and sub standard assets (1+2+2)
4. Explain one most important difference between each of the following pairs of terms each:
 a) Consortium and Syndication arrangement
 b) Tier 1 Capital and Tier II capital as per Basel II norms
 c) Core deposits and CASA deposits
 d) CAMELS rating and INROADS
 e) "Spread" and "Burden" (1 x 5)
5. A Bank wants to charge a floating rate for its borrower as it expects high interest rate volatility in the near future. The present Base rate is 10%. The Bank wants to charge a premium of 300 basis points over the base rate. Which method of arriving at the floating rate should it use – base rate plus or base rate times. Which pricing would benefit the bank more when:
 i. Base rate moves up by 100 basis points
 ii. Base rate falls by 100 basis points.

Section B:

1. a) Name the risks those can be managed through ALM. Explain briefly the process of ALM undertaken in Banks?

- b) A Bank has raised a block of fixed deposits (from some customers) for 3 years for an amount of Rs.100 crore @7% p.a interest. The bank has deployed these deposits as a term loan of Rs.100 Crore @ Base rate(10%)+ 2.0% =12%p.a interest repayable over a period of 5 years in equal half yearly installments with one year moratorium period.

Identify and describe the types of various risks the bank is likely to face in this transaction.

(5+5)

2. a) A Bank has following assets:

Cash with RBI and Branches	Rs. 200 crore
Fixed Assets	Rs. 300 crore
Loans to corporate borrowers	Rs.1200 crore
Home loans up to Rs50 lakh	Rs. 500 crore
Loans to equity brokers and against shares :	Rs. 200 crore
Loans to Developers of Commercial real estate	Rs. 400 crore
Loans to agriculturists and artisans (DICGC Cover)	Rs. 300 crore
Total funded assets	Rs.3100 crore
Bank Guarantees issued for Bids	Rs. 200 crore

Find out the amount of risk weighted assets for credit risk and work out capital required by the bank @9%.

- b) Define credit risk, market risk and operational risk. Explain three pillars of Basel II Accord.
- c) What led BIS to contemplate Basel III Accord? Write about the major measures introduced ?

(3+3+4)

3. a) Ever Smart Co Ltd requires finance of Rs. 50 lakh for purchase of imported second hand machinery from Sweden and Rs. 25 lakh for financing their stocks. Their quarterly sales are Rs. 60 lakh and they want a DABP limit of Rs. 20 lakh. They sell their products to distributors on 90 days credit for which usance / time bills of exchange will be drawn on buyers which they discount on DA (Documents against Acceptance by drawee) basis.

They have a plot of land valuing Rs 20 lakh and a Life Insurance policy for Rs 50 lakh on life of the chairman of the company (Surrender value Rs 5 lakh) as collateral for credit facilities.

Required: The bank assesses and agrees to grant all limits as requested. You need to structure various credit facilities required by the company and advise the nature of primary ad collateral security available for each type of credit facility and the nature of charge available to bank on that security available in table form as under

Sr.	Nature of credit facility	Amount (000)	Margin requirement	Nature of Security	Nature of charge on security

- b) Briefly outline the flow chart of process for credit appraisal in banks.
- c) Briefly outline the flow chart for CDR Mechanism

(4+3+3)

Section C:

You are provided an extract of financial statements for two banks as below:

State Bank of India		Union Bank of India	
Balance Sheet		Balance Sheet	
	Mar '14		Mar '14
Capital and Liabilities:		Capital and Liabilities:	
Total Share Capital	746.57	Total Share Capital	741.31
Equity Share Capital(Face value Rs.10)	746.57	Equity Share Capital (Face value Rs.10)	630.31
Preference Share Capital	0	Preference Share Capital	111
Reserves	117,535.68	Reserves	17,734.05
Revaluation Reserves	0	Revaluation Reserves	0
Net Worth	118,282.25	Net Worth	18,475.36
Deposits	1,394,408.51	Deposits	297,675.64
Borrowings	183,130.88	Borrowings	29,316.62
Total Debt	1,577,539.39	Total Debt	326,992.26
Other Liabilities & Provisions	96,412.96	Other Liabilities & Provisions	8,313.29
Total Liabilities	1,792,234.60	Total Liabilities	353,780.91
Assets		Assets	
Cash & Balances with RBI	84,955.66	Cash & Balances with RBI	18,419.68
Balance with Banks, Money at Call	47,593.97	Balance with Banks, Money at Call	4,653.19
Advances	1,209,828.72	Advances	229,104.43
Investments	398,308.19	Investments	93,723.18
Net Block	8,002.16	Net Block	2,607.62
Capital Work In Progress	0	Capital Work In Progress	0.85
Other Assets	43,545.90	Other Assets	5,271.95
Total Assets	1,792,234.60	Total Assets	353,780.90
Contingent Liabilities		Contingent Liabilities	
<i>Bills for collection</i>	0	<i>Bills for collection</i>	0
Book Value (Rs)	1,584.34	Book Value (Rs)	291.36
<i>share price</i>	2520	<i>share price</i>	210

State Bank Of India Profit and loss Account		Union Bank Of India Profit and loss Account	
March 14		March 14	
Income		Income	
Interest Earned	136,350.80	Interest Earned	29,349.39
Other Income	18,552.92	Other Income	2,821.54
Total Income	154,903.72	Total Income	32,170.93
Expenditure		Expenditure	
Interest expended	87,068.63	Interest expended	21,470.07
Employee Cost	22,504.28	Employee Cost	3,307.77
Operating Expenses	13,221.57	Operating expenses	2,174.99
Provisions / Contingencies	15,935.35	Provisions & Contingencies	3,149.21
Taxes	5,282.72	Taxes	372.70
Total Expenses	144,012.55	Total Expenses	30,474.74
Net Profit for the Year	10,891.17	Net Profit for the Year	1,696.20
Extra ordinary Items	0	Extra ordinary Items	0
Profit br/forward	0.34	Profit br/ forward	0.41
Total	10,891.51	Total	1,696.61
Preference Dividend	0	Preference Dividend	9.99
Equity Dividend	2,239.71	Equity Dividend	252.12
Corporate Dividend Tax	298.45	Corporate Dividend Tax	44.55
Appropriations		Appropriations	
Transfer to Statutory Reserves	8,353.03	Transfer to Statutory Reserves	1,389.54
Balance c/f to B/Sheet	0.32	Balance c/f to B/ Sheet	0.41
Total	10,891.51	Total	1,696.61
Per share data (annualised)		Per share data (annualised)	
Earning Per Share (Rs)	145.88	Earning Per Share (Rs)	26.75
Equity Dividend (%)	300	Equity Dividend (%)	40
Book Value (Rs)	1,584.34	Book Value (Rs)	291.36

Required:

Compare the performance of two banks based on following performance ratios for the year ending March 2014 and give your workings and observations in the table format (specimen) as below:

Sr	Performance Ratio	SBI		UBI		Observations
		computatio n of ratio	Value of ratio	computation of ratio	Value of ratio	
1	Interest Spread					
2	Net Profit Margin (%)					
3	Interest Expended / Interest Earned (%)					
4	Other Income / Total Income					
5	Operating Expenses / Total Income (%)					
6	Capital Adequacy Ratio (%) (min 9%)					
7	Investments / total Deposits Ratio (%)					
8	Asset Turnover Ratio					
9	PE Ratio (Industry PE ratio 10.48)					
10	Net NPA ratio	NA	2.57	NA	2.33	
11	Balance Sheet Size					

Overall final consolidated observations: