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LEARNING SESSIONS

Case-1: Calculation of Standard Gap on the basis of changes in interest rate

International Bank has the following re- pricing assets and liabilities:
Call money. - Rs.500 cr
Cash credit loans. - Rs.400 cr
Cash in hand. - Rs.100 cr
Saving bank. - Rs.500 cr
Fixed Deposits. - Rs.500 cr
Current deposits - Rs.200 cr

There is reduction in rate of interest by 0.5% in call rates, 1% for cash credit, 0.1% for saving bank and 0.8% for FD.

On the basis of above information, answer the following questions:

01 What is the adjusted gap in repricing assets and liabilities?

a Rs.200 cr positive

b Rs.200 cr negative
c Rs.100 cr positive
d Rs.100 cr negative

Que-1: Adjusted gap = (SB + FD) - (Call money +CC) = (500 + 400) -

(500

+ 500) = Rs.100 cr (assets are less than liabilities - Hence negative gap). The cash in hand and current account deposits are not subject to re- pricing, hence these have been ignored.

02 Taking into account, the change in interest rate, calculate the amount of repricing assets as per the standard gap method in repricing assets and liabilities?

a Rs.700 Cr

b Rs.650
Cr

c Rs.600 cr
d inadequate information

Que-2: Call money 500 × 0.5% = Rs.250 cr + Cash credit 400 × 1% =400 cr Total = 650 cr

03 Taking into account, the change in interest rate, calculate the amount of repricing liabilities as per the standard gap method in repricing assets and liabilities?
a Rs450 cr
b Rs.400 Cr
c Rs.300 Cr
d insufficient informa

Que-3: Explanation cr
Total = 450 cr

04 What is the stan d liabilities?
a Rs.150 cr negative
b Rs.175 cr positive
c Rs.200 cr positive
d Rs.250 cr negative

Que-4: Explanation: Assets - Call money 500 × 0.5% = Rs.250 cr + Cash credit 400 × 1% = 400 cr Total = 650 cr
Liabilities - SB 500 x 0.1% = 50 cr + FD 500 × 0.8% = 400 cr
Total = 450 cr
Net change = 650 - 450 = Rs.200 cr positive

Case – 2 Effect of change in rate of interest on Net Interest Income.

International Bank raised funds by way of 91 days term deposit at 6% rate of interest. It has following options to invest these funds:

(a) 91 clays treasury bills @ 8%
(b) 91 clays floating rate loan @ 8% with monthly re-pricing.

(c) 3 -year term loan @ 8%.

01 If bank makes in [illegible] and during the 91 days [illegible] ate, what will be chang [illegible] ent after 91 days?
a 1%
b 0.5%
c no change
d inadequate informa [illegible]

Que-1: Existing cost of d [illegible] 8%.
NII
= 8 - 6 = 2%
New cost of deposit = 6 + 1 = 7%. New [illegible] treasury bills :

= 8 + 1 = 9%. NII = 9-7 = 2%

Hence no change in NII. It will continue to be 2%.

02 If bank invests the funds in 91 days floating rate loan @ 8% with monthly repricing and there is interest rate rise, what will be impact on net interest income of the bank.
a NII will increase
b NII will decrease
c No change in NII
d information is inadequate.

Que-2: Bank is asset sensitive because change in rate of interest on loan will take place twice in 91 days period due to monthly repricing of the loan while the deposit rate will not change during this period. Hence if interest rate increases, the interest income will increase and the NII will increase.

03 If bank invests the funds in 91 days floating rate loan @ 8% with monthly repricing and there is [illegible] fall, what will be impact on net interest income[illegible]

a NII will increase
b NII will decrease
c No change in NII
d information is inad[illegible]

Que-3: Bank is asse[illegible]n loan will take place[illegible]ng of the loan while th[illegible]od. Hence if interest rat[illegible] the NII will decline.

04 If bank invests these fund[illegible]an @8%, what will be impact on net interest income of the bank, if there is increase in interest rates.

a NII will increase
b NII will decrease
c No change in NII
d information is inadequate.

Que-4: Bank is liability sensitive because change in rate of interest on deposit will take place after each period of 91 days, as deposits have to be rolled over. On the other hand, the interest on loan will not

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change during this period. Hence if interest rate increases, the cost of deposits to the bank will increase and there will be no change in interest income. Hence NII will decrease.

05 If bank invests these funds in a 3 -year term loan @8%, what will be impact on net interest income of the bank, if there is fall in interest rates.

a NII will increase
b NII will decrease
c No change in NII
d information is inadequat[illegible]

Que-5: Bank is liabilit[illegible] t on deposit will take pla[illegible] ve to be rolled over. ([illegible] ot change during this [illegible] **of deposits to the ba[illegible] in interest income. He[illegible]**

Case-3 Calculation c[illegible] ed on Standard Approach fo[illegible]

The assets side of balance sheet of International Bank provides the following information:
Fixed Assets - 500 cr, Investment in Central govt. securities - Rs. 5000 cr.
In standard loan accounts, the Retail loans - Rs.3000 cr, House Loans-Rs.2000 cr (all individual loans below Rs.30 lac and fully secured by mortgage), Other loans - Rs.10000 cr. Sub-standard secured loans - Rs.500 cr, sub-standard unsecured loans Rs.150 cr, Doubtful loans Rs.800 cr (all DF-1 category and fully secured) and other assets-Rs.200 cr.

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Based on this information, by using Standard Approach for credit risk, answer the following questions.

01 What is the amount of risk weighted assets for retail loans?

a Rs.3000 Cr
b Rs.2500
Cr c Rs.2250
cr
d Zero, as retail loans are risk fre

Que-1: RW is 75% on ret 50

02 What is the amo
a Rs.2000 cr
b Rs.1800
cr c Rs.1500
Cr d
Rs.1000 cr

Que-2: RW is 50% on h o Rs.30 lac. RW value = 2000 × 50%

03 What is the amount of risk weighted assets for investment in govt. securities
a Rs.5000 cr
b Rs.2500
cr c Rs.1000
Cr d nil

Que-3: On claims against Central govt., the risk weight is zero. 5000 x 0% = 0

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04 What is the amount of risk weighted assets for sub-standard secured accounts?

a Rs.250 cr
b Rs.500 cr
c R5.750 cr
d Rs.1000 cr

Que-4: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, w[illegible] is 50% of the outstanding balance. In sub[illegible] provision being 15%, RW is 150%. H[illegible]

05 What is the am[illegible] unsecured account[illegible]

a Rs.75 cr

b Rs.112.50 cr
c Rs.150 Cr
d Rs.225 cr

Que-5: RW is 150%, if the pr[illegible]00%, if the provisions is 20% and 50%, w[illegible] is 50% of the outstanding balance. In sub-standard unsecured account, the provision being 25%, RW is 100%. Hence RWA = 150 × 100% = 150 Cr

06 What is the amount of risk weighted assets for doubtful accounts?

a Rs.400 Cr
b Rs.600 cr
c Rs.800 Cr
d Rs.1600 Cr

Que-6: RW is 150%, if the provision is less than 20% and 100%, if the provisions is 20% and 50%, where the provision is 50% of the outstanding balance. In doubtful up to one year category (DF-1) account, the provision being 25%, RW is 100%. Hence RWA = 800 × 100% = 800 cr

Case-4 Asset Liability Management:

The bank-wise maturity profile of select deposit category of banks in %age terms of select maturity bucket[illegible] 31, 2010 is as under: (figures in %age)

Liability / Asset
Deposits Up to 1 year Over 1 yr to 3 year[illegible] Over 3 yrs to 5 year[illegible] Over 5 years.

On the basis of given informa[illegible]uestions?

01 There is decline in rate of interest of 2% for a period up to 1 year. The bank group which will gain most is:

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

Que-1: Old private banks are dependent up to 54% deposits in up to 1 year category. Hence, they gain most.

02 There is decline in rate of interest of 2% for a period up to 1 year. The bank group which will gain least is:

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

Que-2: Public sector banks have the lowest amount of deposit in this category 33%. Hence, they gain least [illegible]

03 There is increase i[illegible] with a period above 1 year t[illegible] most affected adversely is[illegible]

a PSU Banks

b Old Private Banks
c New Private Bank[illegible]
d Foreign Banks

Que-3: PSU banks hav[illegible]ch is highest in all the 4 bank[illegible]

04 There is increase in rate [illegible]deposit with a period above 1 year to 5 years. The bank group which will be least affected adversely is:

a PSU Banks
b Old Private Banks
c New Private Banks
d Foreign Banks

Que-4: Old private banks have 39% of their deposits in this category which lowest. Hence, they are least affected.

05 The bank group which is more relaying on long term deposits above 3 years.

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

Que-5: PSU banks are having 30% of their deposits in this category, which is highest.

CASE 5 Asset Liabilit[illegible]

The bank-wise matur[illegible] [illegible]s of select maturity b[illegible] [illegible]n %age)

Liability / Asset	[illegible]	[illegible]	[illegible]	[illegible]
Deposits	100	[illegible]	[illegible]	[illegible]
Up to 1 year	81	[illegible]	[illegible]	[illegible]
Over 1 yr to 3 years	15	3	[illegible]	[illegible]
Over 3 yrs to 5 years	2	6	2	3
Over 5 years.	2	7	2	2

On the basis of given information, answer the following questions?

01 There is increase in rate of interest of 2% for a period over 5 years. The bank group which will lose most is:

a PSU Banks

b Old Private Banks
c New Private Banks

d Foreign Banks

Que-1: Old private banks carry the largest %age borrowing of 7% in this bucket. Hence highest cost increase.

02 There is increase in rate of interest of 2% for a period over! years up to 3 years. The bank group which will lose most is:

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

Que-2: New private ... in this bucket. Hence h...

03 There is decre...
over 3 years to 5 yea...

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

Que-3: Old private banks carry the largest %age borrowing of 6% in this bucket. Hence highest cost decrease.

04 There is decrease in rate of interest of 0.5% for a period of up to 1 year. The bank group which will gain least is:

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

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Que-4: New private banks carry the smallest %age borrowing of 51% in this bucket. Hence lowest cost decline.

05 The bank group which is depending most on over 3 years' borrowing is:

a PSU Banks

b Old Private Banks

c New Private Banks

d Foreign Banks

Que-5: Old private banks [illegible] 13% in this bucket.

Case-6 Asset Liab[illegible]

The bank-wise matu[illegible] ks in %age terms of se[illegible] as under: (figures in %ag[illegible]

Liability / Asset	PSU Banks	B[illegible] Private	Pvt [illegible]	[illegible]
Deposits	100	100	100	100
Up to 1 year	39	42	42	54
Over 1 yr to 3 years	37	32	31	18
Over 3 yrs to 5 years	11	6	12	4
Over 5 years.	13	20	15	24

01 There is increase in rate of interest of 0.5% for a period of up to 1 year. The bank group which will gain most is:

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a PSU Banks
b Old Private Banks
c New Private Banks
d Foreign Banks

Que-1: Foreign banks carry the largest %age loans and advances of 54% in this bucket. Hence highest interest increase on loans.

02 There is increase in rate of interest of 0.5% for a period of up to 1 year. The bank group which will

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

Que-2: PSU banks c %
in this bucket. Henc

03 There is decre
above 1 year to 3 ye

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

Que-3: Foreign banks carry the smallest %age loans and advances of 18% in this bucket. Hence lowest interest decreases on loans.

04 There is decrease in rate of interest of 1.5% for a period of above 1 year to 3 years. The bank group which will lose most

a PSU Banks

b Old Private Banks
c New Private Banks
d Foreign Banks

Que-4: PSU banks carry the highest %age loans and advances of 37% in this bucket. Hence highest loss of interest.

05 If there is upward movement in interest rate scenario for loans the bank group having highest %age of loans due for repricing for up to one year term is:

a PSU Banks

b Old Private Banks

c New Private Banks

d Foreign Banks

Que-5: Foreign banks are h… this category.

Case-7: Case stud…

The VaR of a Govt. … is 8.10%.

1. In the worst- case …

a buyer of the security … next day

b buyer of the security can ex… .80% by next day

c seller of the security can expect, the yield to fall to 7.40% by next day

d none of the above

Explanations:

1. VaR of 0.70% means that the maximum change in the yield can be 0.70%. Hence in a worst-case scenario, the buyer of the security can

expect, the yield to fall to 7.40% (8.10 - 0.70%) by next day and the seller can expect the yield to rise to 8.80% (8.10 + 0.70%).

2. In the worst- case scenario, the prospective:

a seller of the security can expect, the yield to fall to 7.40% by next day
b buyer of the security can expect, the yield to rise to 8.80% by next day
c of the security can expect, the ... by next day
d none of the above

2. VaR of 0.70% me ... d can be 0.70%. Hence in a ... rity can expect, the yiel ... nd the seller can expec ...

3. In the above case ...

a there is 5% possibil ... ere is
b 1% possibility for the yi ...
c there is 5% possibility of ad ... han 0.70%
d inadequate information to draw ...

3. At 95% confidence level, the possibility for an adverse change in yield being higher than 0.70% is only to the extent of 5% (i.e. loss being higher than 0.70%). At 99% confidence, this possibility is to the extent of 1% only.

Case 8 study on Capital Conservation Buffer in Basel III

Bank-A earned a net profit after tax and provisions of Rs.3000 and Bank-B of Rs.1200 cr. Common Equity Tier I capital ratio of Bank-A is 6.75% after including the current period retained profits. This ratio for Bank-B is 7%. Both the banks propose to mobilize fresh capital through public issue and to make the issue attractive, want to pay highest dividend.

RBI rules regarding CCR provide as [illegible]

Ratio after including the current period retained earnings	M[illegible] Ratios
5.5% - 6.125%	[illegible]
>6.125% - 6.75%	[illegible]
>6.75% - 7.375%	[illegible]
>7.375% - 8.0%	[illegible]
>8.0%	0%

Based on the given information, answe[illegible] questions:

01 What is the amount of net profit which the Bank-A is required not to distribute to ensure compliance of Basel III prescription.

a Rs.3000 cr
b Rs.2400
cr c Rs.1600
Cr d Rs.600
cr

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Que-1. Ratio or Bank- is now due to which it is required to conserve 80% of its earning. Hence amount to be conserved = 3000 x 80% = 2400 cr. The max amount that can be distributed = 3000 - 2400 =Rs.600 cr.

02 What is the maximum amount which the Bank-A can distribute as dividend to ensure compliance of Basel III prescription.

a Rs.3000 cr
b: Rs.2400-cr
c Rs.1600 cr
d: Rs.600 cr

Que-2. Ratio of Bar[illegible] to conserve 80% of its [illegible]0 × 80% = 2400 cr. The [illegible]00 = Rs.600 cr.

03 What is the am[illegible]ed not to distribute to e[illegible]

a: Rs.1200
cr b: Rs.720
cr c Rs.480
cr d: Rs.240
cr

Oue-3. Ratio of Bank-B is 7% due to which it is required to conserve 60% of its earning. Hence amount to be conserved = 1200 × 60% = 720 cr. The max amount that can be distributed = 1200 - 720 = Rs.480 cr.

04 What is the maximum amount which the Bank-A can distribute as dividend to ensure compliance of Basel III prescription.

a: Rs.1200 Cr
b: Rs.720 cr

c : Rs.480 cr
d Rs.240 cr

Oue-4. Ratio of Bank-B is 7% due to which it is required to conserve 60% of its earning. Hence amount to be conserved = 1200 × 60% = 720 cr. The max amount that can be distributed = 1200 - 720 = Rs.480 cr.

Case 9 Study on Credit Risk Miti... Basel III

Popular Bank granted a c... Limited repayable over 3 years ... A. The value of collateral in ... ated Bonds issued by ano...

As per RBI guidelin... %.

The haircut on such ... is zero.

Based on this informa...

01 What is the value of c... ircut.
a: Rs.10 cr
b: Rs.9.40 cr
c Rs.0.60 cr
d Rs.0.30 cr

Que-1. As per RBI guidelines, the risk weight for such loans is 50%. The heir cut for such exposure is zero. The hair-cut of collateral being 6%, the value of collateral = 9.40 cr (10 cr - 0.60 cr). Hence, the net exposure = Rs.0.60 cr. With 50% risk weight the value of RWA = 0.60 cr x 50% = Rs.0.30 cr.

02 What is the value of net exposure after credit risk mitigation taking into account the collateral security with prescribed haircut.

a: Rs.10 cr
b: Rs.9.40 cr
c: Rs.0.60 Cr
d Rs.0.30 cr

Que-2. As per RBI guidelines, the risk weight for such loans is 50%. The heir cut for such exposure is zero. The hair-cut of collateral being 6%, the value of collateral = 9.4[illegible] Hence, the net exposure = Rs.0.60 cr. With [illegible] RWA = 0.60 cr x 50% = Rs.0.30 Cr.