**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**END TERM EXAMINATION**

**PGDM (Batch 2019-21) SIXTH TRIMESTER**

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| --- | --- | --- | --- |
| Course Name | **Risk Management in Commercial Banks** | Course Code | **Fin 601** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

* **All questions are compulsory**

**Q.1 Balance sheet of xyz bank as on 31st March 2020** **(16 Marks)**

**( amount in Rs. 000)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Liabilities (Resources)** | | | **Assets (uses)** | | |
| Share capital | 3000 | 3% | Cash | 2900 | 3% |
| Reserves | 6000 | 6% | Money at call and short notice | 4000 | 4% |
| Current Deposits | 28000 | 28% | Investments | 30000 | 30% |
| Savings deposits | 30000 | 30% | Loans and advances | 20000 | 20% |
| Time deposits | 30000 | 30% | Bills discounted | 20000 | 20% |
| Borrowings | 3000 | 3% | Term Loans | 20000 | 20% |
|  |  |  | Fixed assets | 3100 | 3% |
|  | 100000 | 100 |  | 100000 | 100 |

**Profit & Loss of XYZ bank for year ended March, 2020**

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenses** | | **Income** | |
| Interest paid on deposits | 3600 | Interest on investments | 1900 |
| Interest paid on borrowings | 120 | Interest on loan and advances | 5000 |
| Operating expenses | 2000 | Non interest Income | 50 |
| **Total** | **5720** |  |  |
| Operating Profit | 1230 |  |  |
| Tax paid | 400 | **Total** | **6950** |
| Net profit | 830 |  |  |

**Calculation of interest income**

|  |  |  |  |
| --- | --- | --- | --- |
| **Assets** | **Amount** | **Average Yield** | **Income** |
| Cash balance | 2900 | NA |  |
| Money at call and short notice (5%) | 4000 |  | 200 |
| Investments (5%) | 30000 |  | 1500 |
| Loans and advances (9%) | 20000 |  | 1800 |
| Bills discounted (8%) | 20000 |  | 1600 |
| Term Loans (9%) | 20000 |  | 1800 |
| Fixed assets | 3100 | NA |  |
| **Total Interest Income** | | | **6900** |

**Calculation of interest cost**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Amount** | **Average Cost** | **Expenses** |
| Share capital | 3000 | NA |  |
| Reserves | 6000 | NA |  |
| Current Deposits | 28000 | 0% |  |
| Savings deposits (3.5%) | 30000 |  | 1050 |
| Time deposits (8.5%) | 30000 |  | 2550 |
| Borrowings (4%) | 3000 |  | 120 |
| **Total interest paid** | | | **3720** |

**Note: Please make provisions for the followings:-**

1. **Bank has to provide Rs.30,000/- as provision for loan losses**
2. **Board of directors have proposed a dividend of 10% to equity share holders**

**Calculate**

1. Spread
2. Burden
3. Net operating income
4. Profit before tax
5. Profit after tax
6. Retained profit
7. % of CASA deposits
8. % of earning assets
9. Profit margin
10. Gross yield
11. Average yield on advances
12. Average cost of deposits
13. Net interest margin
14. Returns on assets
15. Returns of equity
16. Financial leverage

**Q2.** The bond with the Coupon rate of 7% face value Rs. 1000 matures in 4 years. Yield to maturity is 9% and market interest rate is 10%. Calculate Duration and comment? **(4 Marks)**

**Q3.** Take any real case of credit risk in a bank and write a case of minimum 1000 words on the same. Identify the issues and the steps taken to resolve the risk. **(10 Marks)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Q4.** There are two banks having similar requirement of funds with the option of raising funds at fixed or floating rate. Rates offered by the market to 1st Bank is fixed 9.5% and floating LIBOR+1% whereas the rates offered to 2nd Bank is fixed 10.5% and floating Libor + 3%. Design a Swap to benefit both the banks. **(10 Marks)** | **Q4.** Bank ABC and Bank XYZ have identical requirement of funds and both are exploring raising of fund either at fixed or floating rate. Following rates are offered by the market to both:   |  |  |  |  | | --- | --- | --- | --- | | **Fixed rate market** | | **Floating rate market** | | | ABC | 9.5% | | MIBOR + 2% | | XYZ | 10.5% | | MIBOR + 4% | |
|  | Bank ABC is more interested in raising a fixed rate loan perceiving increased rates in future while Bank XYZ believes to the contrary and wants to issue floating rate debt instruments. Show how the cost of funds may be decreased for both the firms. **(10 Marks)** |