Indian Institute of Technology, Delhi

Course Name: Indian Financial System (SML874)

Component: Major Exam **Marks: 35** **Date: 06/05/2016**

Duration: 2 Hrs

Note: Attempt all the questions from I to IV.

Question I

(0.5*20=10 M)

1. The FDI limit in Indian insurance sector has been raised to ______%.
2. In an open ended mutual fund, the NAV value is determined on a ______ basis.
3. ______ was the flagship scheme of UTI launched in 1964.
4. ______ is the biggest loss making product for general insurance companies in India.
5. If you have paid annual insurance premium of Rs.50,000 for 3 years and you want to surrender your policy after that, you will get Rs.______ as per the new norms.
6. ______ and ______ have been identified as the two Domestic Systemically Important Banks by RBI.
7. If the issue size of government securities is Rs.2200 crore, the reservation for non-competitive bidders will be Rs. ____ crore.
8. NDTL stands for______.
9. ______ financial instruments carry no coupon interest.
10. Marginal standing facility allows banks to borrow from RBI for a period of______.
11. For _____ (a money market instrument), credit rating is mandatory.
12. _____ are like bank fixed deposits but are negotiable money market instruments.
13. If all deposit holders come to withdraw their deposits at the same time, the bank may face a problem called as ______.
14. ______ are insurance plans that offer both insurance coverage and investment in securities market.
15. _____acts as the central bank for all central banks in the world.
16. Basel 3 focuses on market risk, operational risk and _____ risk.
17. An NPA less than a year old is categorized as _________ asset.
18. The 3 categories of investment by commercial banks include ___, ____ and ____.
19. The largest financial institution in our country is ______.
20. The insurance cover that you as student of IIT D have, is an example of _______ insurance product.

Question II.A.

PCB / bonds convert non-convert Warrant Cap market

Write short notes on the following: **(2*3=6M)**

a. Characteristic features of government securities.

b. Forwards, futures and options.

c. Discuss the different types of innovative debt instruments/ hybrid instruments in capital markets? What are the advantages and disadvantages of issuing such instruments?

Question II.B

Following details pertain to a commercial bank's asset portfolio. All amounts are in Rs. Crore: **(4M)**

Assets	Book Value (Rs. crore)
1. Loan given to RBI	320
2. Loan given to NABARD	480
3. Loan given to commercial banks	1200
4. Industrial Loans	9600
5. Other Loans	1600

i. Determine the risk weighted assets (RWA) for credit risk assuming 0% risk weight for RBI, 20% risk weight for commercial banks and loans to government organizations and 100% risk weight for the rest.

ii. If it is further given that the Market RWA is Rs.6200 crore and Operational RWA is Rs.4800 crore, determine the minimum that the bank needs to maintain as per current Basel norms in India for the following:

a. Common Equity Tier 1 capital (CET 1)

b. Tier 1 capital

c. Total capital

Question IIIA

Elaborate on the following: **(3+2=5M)**

a. Discuss the key elements of the Indian insurance market from the perspective of regulation, products and channels of distribution

b. Distinguish between the roles performed by money market and capital market instruments.

Question IIIB

(5M)

ABC Bank has issued floored floating rate notes (FRN). The coupon rate on it will comprise of a benchmark rate plus 'some' basis points. The benchmark rate applicable will be its Base Rate in the respective years. The details of the coupon rate are given below:

Year 1	6% plus 25 basis points
Year 2	6.5% plus 50 basis points
Year 3 & 4	4.75% plus 100 basis points
Year 5	6.25% plus 50 basis points
Year 6	5.25% plus 0 basis points

Each FRN has a face value of Rs.1000. For the bank, its cost of debt capital is 7%. The FRNs will be redeemed at the end of 6 years at its face value. The floor rate is 6% p.a. What will be the maximum price that you will be willing to pay for each FRN today? Show your workings clearly.

Question IV

(1+1+1+2=5M)

NPA pains to continue at 'elevated levels' this fiscal: ICICI Bank; 2 May, 2016

MUMBAI: ICICI Bank, which posted a massive plunge in net profit in the March quarter on a spike in bad loans, expects the asset quality pain to continue at "elevated levels" this fiscal with the top private lender NPA putting a whopping Rs 44,000 crore more of assets on a watch-list. There are significant uncertainties around future trends and it is expected that NPA (non-performing assets) additions will continue to be at elevated levels in FY17." Executive Director NS Kannan told analysts on a conference call after the quarterly results wherein it reported a 86 per cent plunge in profit to an over decadal low of Rs 406 crore. lowest

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In an investor presentation, the bank said its exposure of over Rs 44,065 crore to six segments, including power, mining, iron & steel, cement, oil rigs and "promoter entities" will be watched closely for signs of stress as the year progresses. A bulk of these stressed loans are likely to come from this list of accounts and also the restructured book, which currently stands at Rs 8,500 crore, Kannan said during the call. A transcript of the call was placed on the bank website late this evening.

One of the major factors for the red ink on the balance-sheet in Q4 was the creation of a counter-cyclical reserve of Rs 3,600 crore which was done proactively to cover for NPAs from such assets. The bank is working on refinance under the 5/25 scheme for Rs 750 crore of loans, while on the strategic debt restructuring side, the amount of loans under consideration beyond ones reported in the earnings is Rs 500 crore, he said. Managing Director and Chief Executive Chanda Kochhar said the bank is confident of maintaining a healthy capital base with the core capital of over 11 per cent by March 2018, coupled with the "value in the subsidiaries" helping it meet the much needed growth capital. "We are quite equipped to pursue growth opportunities as they come and pursue the action plans that we have laid out for resolution," Kochhar said.

The shift to better-rated corporates and concentration on the secured retail book will further compress the net interest margin by 0.20 per cent in FY17 over 3.37 per cent in Q4, Kannan said. It would like to keep the share of the low-cost Casa deposits at 38-40 per cent and is also targeting to grow its SME book by 15 per cent in FY17 under the overall 18 per cent domestic advances growth target, he said. Reacting to numbers, the lowest in over 11 years, the ICICI counter tanked 4.08 per cent to Rs 226.95 on the BSE, whose benchmark Sensex shed only 0.7 per cent. This was on top of the battering the stock suffered on the day of the results on Friday, when it lost over 2 per cent.

Based on the news article given and related discussions in class, answer the following questions:

i. What are NPAs?
ii. Why are the profits of the banks in India, declining?
iii. What is ICICI doing to manage this problem?

iv. Following details pertain to bank X:

Items	**Amount (Rs. Crore)**
Standard Advances	14,500
Gross NPA	870
Deductions/ Provisions on NPAs	65.5
Deductions/ Provisions on Standard advances	7.5

Determine:

a. Gross Advances
b. Net NPA as a % of Net Advances

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