Indian Institute of Technology Delhi

Course Name: Banking and Financial Services (MSL871) **Date: 28/08/2016**
Component: Minor **Marks: 30** **Duration: 1 Hr.** **Sem I (2016-2017)**

Attempt all the questions from I to IV.

Question I. **(10*0.5=5 Marks)**

For questions (i) to (vi), fill in the blanks with appropriate answers.

i. If the reserve requirement for commercial banks is 15%, a deposit of Rs.50 crore will support total deposits of Rs.___ crore and Loans of Rs. ____ crore by the banking system.
ii. If RBI increases the repo rate, the money supply should ______.
iii. CASA stands for _____.
iv.' C' in Camels framework is _______.
v. For Loss assets, banks can either make 100% provision or can ______ from the books.
vi. Bills of exchange are discounted at the ______ rate.

For questions (vii) to (x), read the details given below:
Assume that the balance sheets of all commercial banks have three items namely deposits ofRs. 500 crore, Loans and Reserves. Given that the reserve requirement is 20% and the banks are completely loaned up.
Also, the Balance Sheet of the Central Bank has three items namely Reserves of commercial banks, Currency of Rs.300 crore and Government Securities.
vii. The maximum amount of loans by commercial banks can be Rs. ____ crore.
viii. The money supply in the economy is Rs. ____ crore.

Suppose that the Central bank wants to increase the money supply and thus decrease the bank rate; as a result, banks borrow Rs. 15 Crore;
ix. The new money supply will be Rs. _____ crore
x. New Deposits and Loans created by the commercial banks together will be Rs.____ and Rs.___ crore respectively.

400+ 1000+15 500 300 700 12000
400 400 400 900 300

Question II **(5 Marks)**
Asset Quality Review and its impact on banks; July 17, 2016

The Reserve Bank of India (RBI) has conducted an asset quality review with a view to cleaning up balance sheets of banks. This has resulted in mounting losses for the banking sector. Typically, Reserve Bank of India (RBI) inspectors check bank books every year as part of its annual financial inspection (AFI) process. However, a special inspection was conducted in 2015-16 in the August-November period. This was named as Asset Quality Review (AQR). In a routine AFI, a small sample of loans is inspected to check if asset classification was in line with the loan repayment and if banks have made provisions adequately.
However, in the AQR, the sample size was much bigger and in fact, most of the large borrower accounts were inspected to check if classification was in line with prudential norms. Some reports suggest that a list of close to 200 accounts was identified, which the banks were asked to treat as non-performing. Banks were given two quarters, October-December and January-March of 2016 to complete the asset classification. The RBI believed that asset classification was not being done properly and that banks were resorting to ever-greening of accounts. Banks were postponing bad-loan classification and deferring the inevitable. This is a wrong way to go about it," RBI governor Raghuram Rajan had once said. Mr. Rajan had also said 'band-aids' would no longer work and banks need deep surgery.

1. **What is asset quality review and what are its implications?**
2. **Do you think that it was imperative to conduct AQR? What could have been the implications of not conducting it?**

Question III

(5+5+5=15 Marks)

IIA. Discuss the key developments in the Indian banking industry in the last two decades.

IIB. Compare the scenario in the Indian economy vis-a-vis that of the Japanese economy? How are the roles played by RBI different from that of Bank of Japan?

IIC. Analyse ***any one*** of the following research papers in terms of their objectives, coverage, findings and main conclusions.

i. The growth of a shadow banking system in emerging markets- Evidence from India
ii. Do we need big banks? Evidence on performance, strategy and market discipline
iii. Determinants of loan losses of Indian banks: A panel study.

Question IV

(5 Marks)

Given are the financial statements of Bank A for the financial year 2015-2016:

Balance Sheet

Capital and Liabilities:	
Equity Share Capital	505.64
Reserves	72,172.13
Net Worth	**72,677.77**
Deposits	546,424.19
Borrowings	53,018.47
Total Debt	**599,442.66**
Other Liabilities & Provisions	36,725.13
Total Liabilities	**708,845.56**
Assets	
Cash & Balances with RBI	30,058.31
Balance with Banks, Money at Call	8,860.53
Advances	**464,593.96**
Investments	**163,885.77**
Gross Block	3,343.16
Net Block	**3,343.16**
Other Assets	38,103.84
Total Assets	**708,845.57**

Income Statement

Income	
Interest Earned	60,221.45
Other Income	10,751.72
Total Income	**70,973.17**
Expenditure	
Interest expended	32,629.93
Employee Cost	5,702.20
Selling, Admin &Misc Expenses	19,638.99
Depreciation	705.84
Operating Expenses	16,979.71
Provisions & Contingencies	9,067.32
Total Expenses	**58,676.96**
Net Profit for the Year	**12,296.21**

0.0173

24.38[illegible]

Determine the following and interpret the results:

i. Spread
ii. Burden
iii. Express the relationship between ROE, ROA and Equity Multiplier.
iv. If demand liabilities comprise of 45% of the total deposits, determine the liquidity position using demand to time deposit ratio.
v. If the Net NPA are Rs.25,898, determine the Net NPA to assets ratio.

*****End*****