

Roll No. ....

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

**NOTE :** 1. Answer **ALL** Questions.

2. Working notes should form part of the answer.

**1. Case Study :**

The banking activities in India are regulated by the Banking Regulation Act, 1949. Any bank which transacts this business in India is called a banking company. However, any company which is engaged in the manufacture of goods or carries on any trade and which accepts deposits of money from the public merely for the purpose of financing its business as manufacturer or trader shall not be deemed to transact the business of banking. It may be mentioned that the Banking Regulation Act, 1949 is not applicable to a primary agriculture society, a co-operative society land mortgage bank and any other co-operative society except in the manner and to the extent specified in the Act.

Section 6 of the Banking Regulation Act, 1949 specifies the form of business in which a banking company may engage. As per Section 9 banking company can only acquire immovable property for its own use. Other immovable properties acquired must be disposed-off within seven years from the date of acquisition.

The General Ledger and Profit and Loss Ledger are two principal books of accounts. Formats for Balance Sheet and Profit and Loss Account are given in the Third Schedule of The Banking Regulation Act, 1949 which includes Form A (Balance Sheet) and Form B (Profit and Loss Account) and eighteen other schedules of which two relates to notes and accounting policies.

The following are the ledger balances extracted from the books of Vaishnavi Bank Limited as on 31st March, 2019 :

(In Rupees thousands)

Particulars	Dr. (₹)	Cr. (₹)
Share Capital		1,90,000
Current Accounts Control		97,000
Employee Security Deposit		7,420
Investments in Govt. of India Bonds	94,370	
Gold Bullion	15,130	
Silver	2,000	
Constituent Liabilities for acceptance and endorsement	56,500	56,500
Borrowings from banks		77,230
Buildings	65,000	
Furniture	5,000	
Money at call and short notice		
— With Banks = ₹ 23,000		
— With other Institution = ₹ 3,000	26,000	
Commission & Brokerage		25,300
Saving accounts		15,000
Fixed deposits		23,050
Balances with other banks		
— In Current Account = ₹ 26,350		
— In other account = ₹ 20,000	46,350	

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Other Investments	55,630	
Interest accrued on investments	24,620	
Reserve Fund		1,40,000
P & L account		6,500
Bills for Collection	43,500	43,500
Interest		62,000
Loans	1,81,000	
Bills Discounted	12,500	
Interest	7,950	
Discount		42,000
Rents		600
Audit Fees	5,000	
Depreciation Reserve (Furniture)		200
Salaries	21,200	
Rent, Rates and Taxes	12,000	
Cash in hand and with Reserve Bank		
(i) Cash in hand (including currency notes) = ₹ 35,000		
(ii) Balance with Reserve Bank of India		
(a) In Current Account = ₹ 32,000		
(b) In other account = ₹ 8,000	75,000	
Miscellaneous income		3,900
Depreciation reserve (Buildings)		800
Director's Fees	1,000	
Postage	1,250	

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Loss on sale of Investments	20,000	
Branch adjustment	20,000	
<b>Total</b>	<b>7,91,000</b>	<b>7,91,000</b>

*Note* : In the absence of previous year figures, the same is not indicated.

**Other information :**

The Bank's Profit and Loss Account for the year ended and Balance Sheet as on 31st March, 2019 are required to be prepared in appropriate form. Further information (In Rupees thousands) available is as follows :

- (a) Rebate on bills discounted to be provided ₹ 4,000
- (b) Depreciation for the year
- Buildings ₹ 5,000
- Furniture ₹ 500
- (c) Included in the current account's ledger are accounts overdrawn to the extent of ₹ 2,500.

Based upon the above information answer the following :

- (a) Prepare Balance Sheet of Vaishnavi Bank Limited as on 31st March, 2019.
- (b) Prepare Profit and Loss Account of Vaishnavi Bank Limited for the year ended 31st March, 2019.
- (c) Prepare Schedules of Balance Sheet of Vaishnavi Bank Limited as on 31st March, 2019.
- (d) Prepare Schedules of Profit and Loss Account of Vaishnavi Bank Limited as on 31st March, 2019.
- (e) Explain in detail the basic characteristics of Retail Banking and Wholesale Banking.

(8 marks each)

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2. (a) An export customer has a bill for £ 100,000, the bank has to purchase £ (Pound Sterling) from him and give an equivalent amount in rupees to the customer. Presuming the inter-bank market quotations for spot delivery are as follows :

US\$ 1 = ₹ 60.8450/545

The London market is quoting as under :

£ 1 = US\$ 1.9720/40

Calculate the amount in ₹ to be received by the customer.

- (b) ABC bank has financed a term loan of ₹ 120 lakh to a Micro Small Enterprises unit, which was repayable in 60 monthly instalments of ₹ 2.00 lakh and Interest. The monthly instalments of ₹ 2.00 lakh plus interest from 15th December, 2017 remained unpaid though the available security is more than the outstanding balance (₹ 80 lakhs). Explain the movement of Asset Classification of account and provision requirement (percentage and amount) as per RBI guidelines.

(6 marks each)

3. (a) Explain the guidelines of “Internal Ombudsman Scheme, 2018 for Scheduled Commercial Banks” issued by Reserve Bank of India.

(6 marks)

- (b) Company has issued two series of bonds A and B. They have the following characteristics :

	<b>Bond A</b>	<b>Bond B</b>
Face Value	₹ 100	₹ 100
Coupon Rate	14%	14%
Current market price	₹ 100	₹ 100
Term to maturity	4 years	7 years
Coupon Payment	Annually	Annually

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- (i) Compute the YTM of Bond A and B.
- (ii) If the interest rates fall by 1%, what would be the new market price of the bonds ?
- (iii) What is the percentage change in the price of two bonds ? What did you notice regarding the percentage price change in case of Bonds A and B identical in all respects, except term to maturity ?

**Note :**

- (1) Present Value (PV) interest factor of annuity (PVIFA), 13% for 4 years = 2.9745, 13% for 7 years = 4.4226.
- (2) Present value (PV) of ₹ 1 that is  $(1 + r)^{-n}$  where  $r$  = interest rate,  $n$  = number of period until receipt. Present value, where  $r$  (13%) and  $n$  (period) 4 years, PV = 0.613 and  $r$  (13%) and  $n$  (period) 7 years, PV = 0.425).

(6 marks)

4. (a) Reserve Bank of India issued Guidelines to Indian Commercial Banks on “Timelines for Large Accounts to be referred under IBC, 2016”. Explain.

(6 marks)

- (b) M/s Ramesh Kumar Export Pvt. Ltd. (Customer) requested Bank to book a forward sale contract for US \$ 100000 deliver after 3 months. US \$ are quoted in the local interbank market as under :

Spot US \$ 1 =	₹ 68.7400/7500
One month forward premium :	0.0850/0.0900
Two months forward premium :	0.3650/0.3700
Three months forward premium :	0.6300/0.6350

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**Additional information :**

- (a) Exchange profit must be included in the rate quoted to the Customer.
- (b) Rate quoted should be nearest to the fourth decimal in multiples of 0.0025.
- (c) Brokerage and other charges may be ignored.
- (d) Bank is entitled to exchange profit of 0.10% on the transaction.

Calculate the rate which will be quoted by you as a banker to M/s Ramesh Kumar Export Pvt. Ltd. What will be bank's profit from this transaction ?

(6 marks)

5. (a) Calculate the working capital finance (Bank Finance) for the year 2019-20 of M/s Ganga Enterprises Pvt. Ltd. as per Simplified Turnover Method of lending based on the following information :

**Balance Sheet****As on 31st March 2019**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
Equity Share Capital	10,00,000	Fixed Assets	12,50,000
Long term Debt	10,00,000	Debtors	5,00,000
Creditors	5,00,000	Stock	16,00,000
Cash Credit	10,00,000	Cash	1,50,000
	35,00,000		35,00,000

Sales of the company for the year 2018-19 were ₹ 80,00,000.

(6 marks)

- (b) Information Technology (IT) has brought a revolution in the working of banks in India, it also carries various risks. Explain the various types of IT risks and control mechanism for managing these risks.

*(6 marks)*

6. (a) “For a successful implementation of an effective Credit Risk Management System, in banks, a sound organizational structure is a pre-requisite”. In this regard, briefly explain the recent RBI guidelines to Banks on appointing Chief Risk Officer (CRO).
- (b) Explain the Composition of Regulatory Capital. What is the minimum regulatory capital requirement for Banks in India as per Basel III Accord ?

*(6 marks each)*

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