INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Basel

Chapter: Unit 4

Category: Practice questions

1. Bank of the Bluegrass has the following balance sheet:

Cash (coins and banknotes)	10	Retail deposits (less stable)	100
Central bank reserves	10	Wholesale deposits (20% mature in one month)	75
Treasury bonds (> 1 yr)	10	Tier 2 capital	2
Mortgages	30	Tier 1 capital	18
Retail loans (< 1 yr)	30		
Small business loans (< 1 yr)	90		
Fixed assets	15		
Total assets	195	Total liabilities and equity	195

1) Use the balance sheet to calculate the liquidity coverage ratio. Assume HQLA factors (i.e., haircuts) are 100% for cash, central bank reserves and Treasury bonds (meaning no haircut), and 0% for all loans and fixed assets (meaning they do not count at all in HQLA, there is a 100% haircut and a 0% factor). Assume also a 5% run-off rate for less stable retail deposits and a 100% run-off rate of wholesale deposits that mature in the next 30 days. Assume a 0% run-off of Tier 2 and Tier 1 capital.
2) Calculate the bank's net stable funding ratio.

2. Choose the correct alternative

1) The capital conservation buffer:

A. is intended to protect banks from the countercyclical nature of bank earnings
B. can be set between 0.0% and 2.5% of risk-weighted assets, and is at the discretion of the regulators in individual countries
C. causes the Tier 1 equity capital ratio requirement to increase to 7% of risk-weighted assets in normal economic periods
D. requires that total capital to risk-weighted assets must be 10.5% at all times

2) Which of the following is an example of external data that the chief money laundering and financing of terrorism (ML/FT) officer should analyze and understand in order to manage and mitigate ML/FT risks?

A. Transaction data.
B. Payment message streams.
C. Country reports.
D. Customer passports and identity cards.

3) With respect to managing and mitigating money laundering and the financing of terrorism (ML/FT) risks in a bank, bank tellers and branch managers are examples of:

A. the first line of defense
B. the second line of defense
C. the most important line of defense

D. lower level bank employees that have little to do with financial crime risk management

3. Highlands Bank has estimated stable funding in the bank to be $100 million. The bank estimates that net cash outflows over the coming 30 days will be $137 million. The bank has capital of $5 million and a total exposure of $140 million. The bank estimates that it has high-quality liquid assets of $125 million. What is the bank's liquidity coverage ratio (LCR)?

4. Which of the following statements is correct regarding correspondent banking relationships?

A. Cross- border correspondent banking involving the execution of third party payments is a lower risk.
B. Correspondent banking relationships allow the respondent bank to provide services
C. A correspondent bank must conduct due diligence on the respondent bank's customers
D. A correspondent bank generally has a direct relationship with the respondent bank's customers

5. Regarding Basel III capital requirement, which of the following items should be included in Tier 1 capital?

A. Changes in retained earnings arising from securitized transactions
B. Deferred tax assets
C. Non – cumulative perpetual preferred stock
D. Debt subordinated to depositors with an original maturity of five years or more.

6. The third line of defense a bank has against money laundering and the financing of terrorism (ML/FT) according to the Basel Committee is:

A. The supervisory authorities of the specific jurisdiction in which the bank resides
B. The business units of the banks
C. The chief officer in charge of the anti money laundering and countering of financing of terrorism (AML/ CFT)
D. Internal audits at the bank