



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