

PGDM - Batch 2019-21
TREASURY AND RISK MANAGEMENT
DM-514

Trimester - V, End-Term Examination: December 2020

Time allowed: 2 Hrs 30 Min

Max Marks: 50

Instructions: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Marks
A	3	10 Marks each*3	30
B	Compulsory Case Study	20 Marks	20
		Total Marks	50

SECTION A:

Write to the point and relevant while answering questions. Maximum word limit for full question with all its parts is 300 words.

Q. 1. A. [CILO-1]

- a) The bank treasuries in India have transformed from the CRR/SLR keepers to the profit centers. What were the factors that made it possible?
- b) Bank treasury department generates substantial revenues for the bank. Elaborate the various sources of profit of bank treasury with illustrations. **(5+ 5)**

OR

Q. 1. B [CILO-1]

- a) In what ways the Corporate Treasury is different from a Bank Treasury and in what ways both are similar?
- b) The treasury has to maintain strict compartmentalization of the three treasury departments/ offices. What are the separate roles of each department? What could be the need for such a strict segregation of functions?

(5+5)

Q. 2. A [CILO-2]

- a) **There are 5 pairs of treasury terms below. Explain the differences between them:**
- Treasury bills and Cash Management Bills
 - Clean price and dirty price
 - 30/360 (European) and 30/360 (American)
 - Spaced maturity and Front end loaded maturity strategy
 - Front End and Rear End Coupon Quote

(2*5)**OR****Q. 2. B [CILO -2]**

- Liquidity risk can be managed by GAP method. Illustrate.
- Explain the difference between Repo and Term Repo.
- Describe the Gap method under ALM for interest rate risk management.
- How VaR helps assessing the risk.
- Name 4 risks that bank treasury has to manage.

(2 *5)**Q. 3. A [CILO -3]**

- Work out the cash consideration for the first and second leg of a REPO for a security 7.50% GOI 2027. Coupon payment dates are 02 January and 02 July. Date of the repo is 17-Dec-2020 to be reversed on 28-Dec-2019. Current Market Price of security is Rs.98.0500.
- Following bids are received during an auction of G sec.

Bid Amount (cr.)	Implied YTM at bid price	Price (') (% per annum)
400	10.7882	110.8497
650	10.6922	111.5519
1000	10.7552	111.0904
1400	10.7272	111.2952
1250	10.7402	111.2000
100	10.6792	111.6475
750	10.772	110.9663
300	10.8002	110.7624
300	10.7102	111.4198

The after auction market rate for the security is Rs.110.1500. Work out the cut off price and winner's curse for an auction amount of Rs. 5,000 crore for all the bidders under French auction and Dutch auction respectively.

- c) New Gen Bank has an amount of Rs. 12,000 crore of RSA and Rs. 8,500 crore of RSL. How much will the gain or loss to the bank in a period of 3 months if the interest rate goes down by 1%.

(5+2.5+2.5)

OR

Q. 3. B [CILO -3]

- a) If the bank has a surplus of funds of Rs 250 crore for 45 days, what avenue of investment will be the best according to you out of the available avenues?
- b) Bank A discounts bills of exchange for Rs. 5,00,000 for 90 days at 12% p.a rate of interest. Work out the YTM. Whether it is a rear end or front end quote in bill discounting?
- c) The Corporate Assets(Loans) unit of a branch of The NextGen Bank has lent for 1 year @10.5% pa. to its corporate customers. The Retail Liability (Deposits) unit of the branch is able to garner 3-month short term funds @ 4.0% p.a. The treasury is able to raise one-year funds at a cost of 8% p.a and 3- month short term funds at a cost of 4.5% from the market. Work out the profit of the Corporate Assets Unit, Retail Liabilities unit and the Treasury department of the bank using Matched Maturity Method of Funds Transfer Pricing (FTP) of banks in India. Assume that the deposit and loan rates are fixed.

(5.0 +2.5 +2.5)

Section B:**4. Compulsory Case carries 20 marks****The treasury department of the Fast Bank Ltd**

The treasury department of the Fast Bank Ltd has faced certain situations detailed below. You need to resolve issues as per direction given in each such situation.

4.1. The RBI monetary policy review committee is to meet in Feb 2021. Supposing that it observes that inflation rate has inched up from 7% to 8.25% and GDP growth estimate has come down to contraction of 7.5% for FY 2020-21 with just one quarter of the year left to work upon. The RBI and the Government of India take following measures:

- CRR reduced to 3.5%
- LAF rate is decreased to 3.75%
- Personal income tax rate reduced by 5% across all the slabs.
- MNREGA wage rate increased to Rs. 220 per day from Rs.180 per day per person.
- MSP of all crops raised by 25%

What could be the intended impact of all these measures taken by RBI and the Government of India on the economy and how the treasury will respond to these policy changes?

(5)

4.2 The Bank has following assets and liabilities classified by maturity in each time bucket.

Maturity days/ months	Liabilities	Assets
1 day	800	1100
7 days	1300	1100
14 days	1200	900
28 days	900	1000
1-3 months	1100	1200
4-6	1400	1100
7-12	2100	1300
13-24	2500	2800
25-36	2000	1900
>36	1100	1800

Analyze the information and prepare a note on liquidity position and suggest what steps could be taken to rectify the position, if so required. (5)

4.3. The following irregularities were found on audit of the treasury department:

- i. The intra-day open position limit was fixed as Rs 1 billion and another overnight open position limit was Rs 1 billion. Sometimes, the deviation in the above limit was observed from the records of past one year but there was no reason for the same given by the concerned dealers found on record.
- ii. "Stop loss" limit and "Take profit" limit was not found having been set up per deal but these limits were set up for each forex trader.
- iii. AGL and VaR limits were not found set up.
- iv. The rate chart is generated once a day by the dealers.
- v. Confirmation slips of five deals done by two dealers on their personal account were found on record.

You are required to identify the nature of risk involved, why and how this risk could arise and recommend steps for rectification of each irregularity. (5)

4.4. Treasury Operations at the Fast Bank Ltd.

The balance sheet of the bank on date is given below:

Capital and Liabilities:		Assets	
<u>Total Share Capital</u>	<u>6,476</u>	Cash at branches	7,627
Equity Share Capital	6,476	Cash Balances with RBI	7,000
Reserves	36,738	Balance with Banks, Money at Call	12,653
Net Worth	43,214	Loans and Advances	240,721
Deposits	290,247	SLR Investments	111,614
Borrowings	33,007	Total Fixed and Current assets	379,615
Total Debt	323,254	Gross Block	2,703
Other Liabilities & Provisions	34,532	Net Block	2,703
		Other Misc. Assets	18,682
Total Liabilities⁴	401,000	Total Assets	401,000

Work out the necessary parameters from the balance sheet and advise the correct position whether the Bank is maintaining adequate CRAR, CRR and SLR at the prevailing rates prescribed by RBI. You may consider the risk weights for Bank to bank exposure as 20%, for Investments as 102.5% and for all other non-cash assets as 100%. What steps the treasury will take on the respective observations? (5)