

PGDM Batch 2014-16
Treasury and Risk Management in Banks
Course Code: (DM 515) / 1B-508

Trimester –V, End –Term Examination: December, 2015

Time allowed: 2.5 hours

Maximum Marks: 50

Instruction: 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 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	50

Section A

Word limit : around 150

- Why and how the three main functions of a bank treasury are kept distinct and work in water-tight compartments?
- Describe the Cap on Bank lending and borrowing in the call money market and Banks' Exposure to Capital Markets.
 - Assuming the nominal cost of a deposit of Rs. 100 to be 8%, work out the effective cost of the deposit considering the currently prevailing CRR .

(2.5+2.5)
- Name some important factors those transformed the bank treasuries in India from mere CRR and SLR keepers to Profit Centers?
 - Explain the following phrases used in treasury department:
 - My word is my bond.
 - 3 Vs 12 FRA

(2.5+2.5)
- Your bank has Rs.300 Crore surplus for 120 days. What are the various instruments /avenues for investment for the treasury? Describe them in the order of level of safety of funds invested in tabular form as under:

Sr	Name of Instrument /avenue	Main distinguishing features	
		1 (Return)	2 (Safety/Security)

- Bring out one most important or major point of difference between following pairs of terms:

Roll No. _____

- a) Treasury bills and Cash Management Bills
- b) One example each of Front end and Rear end yield instrument
- c) 30/360 (European) and 30/360 (American)
- d) Clean price and dirty price
- e) Spaced maturity and Front end loaded maturity strategy

(1X5)

Section B:

Word limit: around 500 for each full question with all parts:

6. a) Work out the cash consideration for the first and second leg of REPO for a security 8.35% GOI 2020. Coupon payment dates are 02 January and 02 July. Date of the repo is 18-Dec-2015 to be reversed on 23-Dec-2015. Current Market Price of security is Rs.95.9300.
- b) How a Corporate Treasury function is different from a Bank Treasury function? (5+5)
7. a) The GOI want to sell securities for Rs.5000 crores. Read the table below for bids received.

Amount bid (crores)	Implied YTM at bid price	Price (Rs.)
100	10.6792 (% per annum)	111.6475
650	10.6922	111.5519
300	10.7102	111.4198
1400	10.7272	111.2952
1250	10.7402	111.2000
1000	10.7552	111.0904
750	10.7720	110.9663
400	10.7882	110.8497
300	10.8002	110.7624

Attempt the following:

- i. Decide the cut off price for successful bids under French auction.
- ii. Decide the cut off price for successful bids under Dutch auction.
- iii. Decide the cut off yield under French auction.
- iv. Decide the cut off yield under Dutch auction.
- v. Explain winner's curse effect if the after-market price of the bond is Rs. 110.00

b) Elaborate Main characteristics of Forward Rate Agreement (FRA). How they are different from Interest Rate Swap (IRS) ?

(5+5)

8. Describe the use of various tools of Asset Liability Management (ALM) to control

- i. Liquidity Risk
- ii. Interest Rate Risk

(5+5)

Section C :

Word limit : around 750

9. Treasury Operations at The Smart Bank Ltd.

The bank has a treasury department headed by Mr. Kumaran. But he joined recently. He found that the systems for risk management do not seem to be appropriate and adequate. He took stock of the whole situation and found the following position in different aspects of treasury operations as on today. He has jotted down major observations with action points in brackets as a note and given to Treasury Chief for action.

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

Capital and Liabilities:		Assets	
Total Share Capital	5,476	Cash at branches	6,627
Equity Share Capital	5,476	Cash Balances with RBI	8,000
Reserves	37,738	Balance with Banks, Money at Call	12,653
Net Worth	43,214	Loans and Advances	239,721
Deposits	289,247	SLR Investments	111,614
Borrowings	33,007	Total Fixed and Current assets	378,615
Total Debt	322,254	Gross Block	2,703
Other Liabilities & Provisions	34,864	Net Block	2,703
		Other Misc. Assets	19,014
Total Liabilities	400,332	Total Assets	400,332
Contingent Liabilities	746,226.39		
Book Value (Rs)	152.2		

1. Bank has the following assets and liabilities classified by maturity in each time bucket.

Maturity Months	Liabilities	Assets	Gap absolute	GAP +/-	Cumulative GAP
Less than 1	70	100			
1-3	100	110			
4-6	130	100			
7-12	200	120			
13-24	240	270			
25-36	190	180			
>36	100	170			

[The above situation of GAP needs to be studied and a note has to be written on view to be taken on liquidity risk and its management.]

2. Following observations were made in respect of risk exposure management:

- i. There were no records of counterparty quantitative limits in respect of at least 40% parties at the bank with whom trades were taking place regularly. Most of the recent deals ranged in value from Rs. 10 lakh to Rs.200 crore and were recommended based on past experience being satisfactory with the parties. No outside agency rating or bank's internal rating assessment sheet in terms of net worth and developments or reports of the counterparties was found on record. Similarly, no other kind of limit was fixed for counterparties.
- ii. There is internal research note that there is an expectation in the market that bond yields will rise from 8.0907 to 8.4000 in very near term.
- iii. Currency wise limits were found to have been set up but there was no objection raised from any quarter on exceeding these limits.
- iv. "Book profit" limit was not found having been set up.
- v. There is no record of what is being done for interest rate risk management.

[An assessment has to be made as to how serious is the above situation and steps required to be taken to create processes to put proper risk exposure management tools system in place.]

3. It is not known whether the Bank is maintaining adequate CAR, CRR and SLR?

[The above ratios as of today from the B/S need to be worked out. The steps need to be taken in case of shortfall or excess under any of the above regulatory requirements]

Required:

You are required to take the necessary actions in all the above issues and situations one by one based on the notes above assuming that you are the Chief of Treasury department of the Bank.

(5+5+5)