

PGDM Batch 2015-17
 Treasury and Risk Management in Banks
 Course Code: (DM 516/IB509)

Trimester –V, End –Term Examination: December, 2016

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**

1. What were the domestic and global macroeconomic factors responsible for the transformation of bank treasuries in India from mere CRR and SLR keepers to profit centers?
2. Explain the Gap method under ALM for interest rate risk management.
3. The current yield on SLR bonds is 6.25 % and the cost of deposit per Rs.100 is 7 %. What should be the effective yield on investments to cover the cost of the deposit in view of current SLR?
4. Elaborate the following terminologies used in the FX market:
 Spot Sale, Forward Purchase, Tom, Cash, Cross Rate, Nostro account
5. Outline the role and responsibilities of corporate treasury in the context of:
 - a) Cash Rich situation
 - b) Balance Sheet Management.

Section B:

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

6. a) How a Treasury has become a substantial profit centre for the Banks. Elaborate.
 b) To ensure that treasury doesn't take excessive risks in the money market, RBI has prescribed certain controls in the form of ceilings. List the ceilings prescribed by RBI for Call Borrowings, Call Lending and Inter Bank Liability.

7. a) Work out cash consideration for the first leg, Repo interest and total cash consideration for the second leg of REPO with following information:

Security offered : 91 days Govt. Treasury Bills, Maturity date: 2nd Feb.,2017

The current Price of the security : Rs.98.5692.

Date of the Repo: 16-Dec-2016, Settlement Date : 22-Dec-2016.

- b) ABC Ltd manufactures automobile components with a high degree of import content. They are required to make a remittance of USD 150,000 to the overseas supplier. What are the financing alternatives available? Please explain the pros and cons of these alternatives with suitable examples.

1. a) The GOI want to sell securities for Rs.5000 crores.

The bids are received as follows.

Amount bid (crores)	YTM bid
1000	10.7552
650	10.6922
300	10.8002
1400	10.7272
1250	10.7402
100	10.6792
750	10.7720
400	10.7882
300	10.7102

- i. Work out the cut off yield for successful bidder under Dutch Auction and French Auction?
 ii. Work out the yield at which each of the successful bidder will get the securities under Dutch Auction and French Auction?
 iii. Work out the winners' curse if post auction yield is 10.7000%

b) If there is an increase in the interest rate by 100 bps work out the EAR in terms of NII for full year (12 months) with the following information?

Maturity	0-1 month	1-3m	3-6m	6-12m
Assets: (Amt in '000)	50	60	130	180
Liabilities	100	310	100	150

Section C :

Word limit : around 750 for the entire case solution

9) Treasury Operations at The Gen Next Bank Ltd.

- a) *The Govt. has demonetized Rs 500 and Rs 1000 currency notes from 9th Nov 2016. These old currency notes are not a legal tender but can be deposited in commercial banks up to 30th Dec 2016 where after with the RBI up to 31 March, 2016 with an undertaking. Banks have been asked by RBI and the Government to take extra measures to exchange currency notes of public with utmost efficiency and due caution with proper reporting of cash deposited in accounts to RBI and income tax department.*

What are the implications for the bank treasury in this scenario and how the treasury would respond in the short and long run?

- b) Explain the risk involved and the appropriate response or action of the treasury in the following scenarios”

Scenario 1

An exporter books a forward contract with the bank for covering the receipts of exports of US\$ 10 Mn.

Scenario 2

A customer walks into the bank with a cheque for US\$ 50,000, and requests the bank to pay Rupees by purchasing the instrument. The system fails to take the transaction into forex position.

Scenario 3

Branch reports delivery under forward contract to Dealing room only.

Scenario 4

A foreign currency loan of US\$ 2 Mn is sanctioned and disbursed.

Scenario 5

The forex rate chart is generated once a day by the dealers.

- c) Write the risk involved and the appropriate action of the treasury (in light of current regulatory requirements), in the following discrepancies observed while auditing the treasury department"
- i. *"Stop loss" limit per forex deal only was found set up for each forex dealer/trader. But some deviations made frequently were not found having been explained by the forex dealers/traders.*
 - ii. *"Take profit" limit was not found having been set up.*
 - iii. *RBI approvals for overnight open position were found on record but on line report of GPB was not sent to RBI for the last one month.*
 - iv. *There was a common practice of using dealing room staff in preparing contract confirmation slips and back office staff to deal with records of dealing room.*
 - v. *Confirmation slips of five deals done by two dealers on their personal account found on record. No policy in place by the bank in this regard.*

End of the Question Paper