

PGDM / PGDM (IB) - Batch 2018-20

TREASURY AND RISK MANAGEMENT

DM-515 / IB-515

Trimester - V, End-Term Examination: December 2019

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	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]

- Name some important factors those transformed the bank treasuries in India from mere CRR and SLR keepers to Profit Centers?
- List all the risks that a bank treasury has to manage.
- Classify the following tasks under three major Departments/ Offices of the bank treasury: Dealing, Contract Confirmations, Investment, Risk taking, Settlements, Risk Measurement, Analysis, Monitoring exposure limits, Accounting and Reconciliation, MIS to ALCO and RBI.

(2.5+2.5+5)

OR

Q. 1. B [CILO-1]

There are 4 pairs of treasury terms below. Explain the differences between them:

- Treasury bills and Cash Management Bills
- Front end and Rear end coupon quote
- Clean price and dirty price
- Spaced maturity and Front end loaded maturity strategy

(2.5*4)

Q. 2. A [CILO-2]

- Describe the Cap on Bank lending and borrowing in the call money market and Bank Exposure to Capital Markets.

- b) Repo rate, reverse repo rate and bank rate are signals from monetary policy of RBI for the financial markets. Comment on the statement in the context of bank treasury operations.
- c) In what ways the Corporate Treasury is different from a Bank Treasury and in what ways both are similar?

(2.5+2.5+ 5)

OR

Q. 2. B [CILO -2]

- a) VaR helps to assess a particular type of risk. Explain.
- b) Assume that the bank has a rating of AAA & is able to raise 3 Months & 1 year money in the inter- bank market @ 4% & 6% p.a respectively. By using Matched Maturity Funds Transfer Pricing Method, compute the profit margin with the following information:

Asset	Unit	Balance	Maturity	Rate of Intt	income/ expense
Loan	Corporate	Rs 100	1 yr	8%	(+) Rs. 8.0
Liability					
SB a/c	Retail	Rs.100	3 mths	3.5%	(-) Rs. 3.5
Net					(+) Rs. 4.5

- c) Describe the use of various tools of Asset Liability Management (ALM) to control
 - i. Liquidity Risk
 - ii. Interest Rate Risk

(2.5+2.5+ 5)

Q. 3. A [CILO -3]

- a) Work out cash consideration for the first and second leg of Repo with the following information:

Security offered under Repo: 91 days Treasury Bills of GOI maturing on 2nd February 2020. The current Price of the security offered under Repo is Rs.98.0694. Date of the Repo is 18-Dec-2019 and the Settlement Date is 24-Dec-2019.

- b) The GOI want to sell securities for Rs.5000 crore. 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

Explain the winner's curse effect in bond auctions. Work out its impact under French and Dutch auctions respectively if the after-market price of the bond is Rs.110.5000 in the above case.

(5+5)

OR

Q. 3. B [CILO -3]

- The current yield on SLR bonds is 5.95% and the cost of deposit per Rs100 is 6.25%. What should be the effective yield on investments to cover the cost of the deposit in view of SLR at the current rate? What is the opportunity cost of SLR?
- A 182-day T-bill is being traded at 95.94, Work out its YTM. Whether T-bill is quoted at rear end or front end basis?
- If the bank has a shortfall of liquidity of Rs200 crore for 15 days, what avenue of resource will be the best according to you out of the available avenues?

(2.5+2.5+ 5)

Section B:**4. Compulsory Case carries 20 marks****A case of the treasury department of the Modern Bank Ltd**

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

- The balance sheet of the bank on date 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
<i>Contingent Liabilities : 746,226.39</i>			
<i>Book Value (Rs): 152.2</i>			

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)

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

Maturity days/ months	Liabilities	Assets
1 day	700	1000
7 days	1200	1000
14 days	1100	800
28 days	800	900
1-3 months	1000	1100
4-6	1300	1000
7-12	2000	1200
13-24	2400	2700
25-36	1900	1800
>36	1000	1700

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)

- c) On audit of the treasury department, following irregularities were found.
- 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 were 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 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 of the irregularities. (5)

- d) Suppose that the RBI monetary policy review committee in February, 20, observes that inflation rate has inched up from 4% to 6.25% and GDP growth estimate has reduced from 7.2% to 5.1% for FY 2019-20 with just one quarter of the year left to work upon and the RBI takes following measures:
- a. CRR kept unchanged
 - b. SLR reduced to 18%
 - c. LAF rate is decreased to 5.00%
 - d. Personal income tax rate reduced by 5%
 - e. MNREGA wage rate increased to Rs. 220 per day
 - f. Minimum Support Price (MSP) of all crops raised by 25%

What could be the intended impact of all these measures taken by RBI on the economy and how the treasury will respond to these policy changes? (5)