**Treasury Management in Banking**

**September 2022 Examination**

**Q1. Explain the various approaches to measure risks. As a treasury manager of a bank, which approach will you follow to evaluate stress events of liquidity position of your bank**.

**Ans 1.**

**Introduction**

Risks in the organisation are usually considered as trade-off between reward and threat. Only if the risks are accepted, there will be greater opportunities to reap benefits. The main objectives of risk management include maximising profits, creating opportunities out of risks, protecting organisation’s assets etc. Risk management deals with balancing risks and controls. Banks are exposed to different types of risks that may have a negative effect on their business. Management of risks enables the organisations to reduce risk levels in order to meet the profit

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**Q2.** Below excerpts are from the balance sheet of a bank.

|  |  |  |
| --- | --- | --- |
| **Balance Sheet for Hypothetical**  **Bank** |  |  |
| **Particulars** | **Assets** | **Rates Liabilities Rates** |
|  |  | Rate sensitive |
| Rate sensitive Assets  Fixed Assets (Non earning) | 800  200 | 8% Liabilities 500 6% |
|  |  | Other |
|  |  | Liab.(non |
|  |  | paying) 200 |
|  | 1000 | Equity 300 |
|  |  | 1000 |

**1. Calculate the net interest margin of the bank**

**2. What kind of risk you can able to demonstrate out of this balance sheet.**

**3. What are expectation of the bank in terms of interest rates if they created such portfolio of Assets and Liabilities? (10 Marks)**

**Ans 2.**

**Introduction**

**Q3. Maruti Suzuki Ltd. has imported machinery worth 1 million USD and the invoice is**

**payable in 90 days. Current Spot rate in the market is USD/INR 75 while 90 Days forward**

**is quoted at USD/INR 76. The prominent economists predict the spot rate after 90 days**

**at USD/INR 76.5.**

**Cost of Borrowing for Maruti in India is 10% and USD Interest Rate = 2%.**

**A 90 days Call option with exercise price of USD/INR 75 for 100,000 USD is available**

**at premium of INR 2.**

**You are required to calculate impact on transaction exposure under following scenarios:**

**a. Company decides to use Forwards & Options for hedging**

**b. Company decides not to hedge. Suggest is it a wise decision given the prediction by the economist held true.**

**Ans 3a.**

**Introduction**

a) i) At forward, obligation would be

$10,00,000\*76 = 7,60,00,000

ii) At call option

Call option of 75 bought at premium of Rs. 2

**Ans 3b.**

**Introduction**

**Money market hedging**

Amount to be invested in US for 90 days = x

x+x\*2%\* 90/365 = 10,00,000

x= $9,95,092.69

Amount to be borrowed today from Indian market