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| **SESSION** | **February - March 2024** |
| **PROGRAM** | **MASTER OF BUSINESS ADMINISTRATION (MBA)** |
| **SEMESTER** | **IV** |
| **course CODE & NAME** | **DBFI401,**  **ALM and Treasury Management** |
| **CREDITS** | **04** |

**Assignment Set – 1ST**

**Questions**

**1. A. Summarize major functions of ALM.**

**Ans:Asset-Liability Management (ALM)** is a critical function within financial institutions, especially banks, aimed at managing the risks that arise due to mismatches between the assets and liabilities in terms of maturity, interest rates, and liquidity.

**Here are the major functions of ALM:**

**1. Interest Rate Risk Management Gap Analysis:** Identifies mismatches between the maturity and reprising dates of assets and liabilities to understand the institution’s exposure to

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**B. Rate Sensitive assets of a Bank as on 31.03.2024 are ₹ 800 cr @ 8% and Rate sensitive liabilities as on 31.03.24 are ₹ 1000 cr @ 5%.Calculate Gap as on 31.03.2024 and Net Interest Income of the Bank.**

**Ans:To calculate the Gap as on 31.03.2024 and the Net Interest Income (NII) of the bank, we need to follow these steps:**

**1. Calculate the Gap**

The Gap is the difference between the rate-sensitive assets (RSA) and the rate-sensitive liabilities (RSL).

It shows the bank's exposure to interest rate changes.

**Gap**

= RSA − RSL Gap

=RSA−RSL

**Given:**

**2. Outline the advantages of Treasury Management System.**

**Ans:A Treasury Management System (TMS)** is a software solution that automates and streamlines the financial operations and management of a company’s treasury functions. The system is designed to enhance the efficiency, accuracy, and security of financial transactions and risk management activities.

**Here are the key advantages of implementing a Treasury Management System:**

**1. Improved Cash and Liquidity Management Real-Time Visibility:** Provides real-time

**3. Differentiate between Banking Book and Trading Book.**

**Ans:**The terms "Banking Book" and "Trading Book" refer to different segments of a financial institution's portfolio, each with distinct characteristics, purposes, and regulatory requirements.

**Here’s a detailed differentiation between the two:**

**Assignment Set – 2ND**

**Questions**

**1. A. Differentiate between Hedger, Speculator and Arbitrager.**

**Ans:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Hedger** | **Speculator** | **Arbitrager** |
| **Objective** | The primary goal of a hedger is to reduce or eliminate the risk associated with price fluctuations in an asset. Hedgers use financial instruments like futures, options, and swaps to protect against adverse price movements. | The primary goal of a speculator is to profit from price movements in financial markets. Speculators take on risk with the expectation of earning returns from fluctuations in asset prices. | The primary goal of an arbitrager is to profit from price discrepancies between different markets or instruments. Arbitragers seek to exploit these inefficiencies by simultaneously buying and selling related assets. |

**B. Infosys stock is quoted on National Stock Exchange (INR) at ₹ 800 while on NYSE (USD) at USD 10.47. Determine if an arbitrage profit is possible. (USD/INR is 83.40).**

**Ans:**To determine if an arbitrage profit is possible between the quoted prices of Infosys stock on the National Stock Exchange (NSE) in India and the New York Stock Exchange (NYSE) in the United States, we need to compare the equivalent prices of the stock in the same currency.

Here, we will convert the price of Infosys stock on the NYSE (quoted in USD) to INR using

**5. A. Rate Sensitive assets of a Bank as on 31.03.2024 are ₹ 800 cr @ 8% and Rate sensitive liabilities as on 31.03.24 are ₹ 1000 cr @ 5%. Calculate Gap as on 31.03.2024 and Net Interest Income of the Bank.**

**Ans:To calculate the Gap as on 31.03.2024 and the Net Interest Income (NII) of the bank, we need to follow these steps:**

**1. Calculate the Gap**

The Gap is the difference between the rate-sensitive assets (RSA) and the rate-sensitive liabilities (RSL).

**It shows the bank's exposure to interest rate changes.**

**Gap = RSA − RSL Gap=RSA−RSL**

**Given:** Rate Sensitive Assets (RSA)

**2. Calculate the Net Interest Income (NII) Net Interest Income (NII) is the difference between the interest earned on rate-sensitive assets and the interest paid on rate-sensitive liabilities.**

Interest Earned on Rate Sensitive Assets

**Interest Earned on RSA**

= RSA × Interest Rate on RSA

**Interest Earned on RSA**

= ₹ 800 crore × 8 %

**B. If interest rates on assets and liabilities reduce by 100 basis points (1%), calculate the impact on the NII (Net Interest Income) of the Bank.**

**Ans:To calculate the Gap as on 31.03.2024 and the Net Interest Income (NII) of the bank, we need to follow these steps:**

**1. Calculate the Gap**

The Gap is the difference between the rate-sensitive assets (RSA) and the rate-sensitive liabilities (RSL). It shows the bank's exposure to interest rate changes.

**Gap =** RSA − RSL Gap=RSA−RSL

**Given:** Rate Sensitive Assets (RSA)

**C. Comment on the impact on NII if the GAP is positive and interest rates reduces.**

**Ans:Net Interest Income (NII)** is the difference between the interest income generated from a bank's assets and the interest expense associated with its liabilities. The Gap (or interest rate sensitivity gap) is the difference between rate-sensitive assets (RSA) and rate-sensitive liabilities (RSL).

A positive Gap indicates that the bank has more rate-sensitive assets than rate-sensitive

**6. A. Briefly explain liquidity risk for a Bank differentiating between funding liquidity and market liquidity risk.**

**Ans:**Liquidity risk for a bank refers to the risk that the bank will not be able to meet its short-term financial obligations as they come due without incurring unacceptable losses. This risk is a critical aspect of a bank's overall risk management strategy.

**Liquidity risk can be broadly categorized into two types: funding liquidity risk and market liquidity risk.**

**1. Funding Liquidity Risk Definition:** Funding liquidity risk is the risk that a bank will not