

Roll No.

Total No. of Pages : 03

Total No. of Questions : 15

MBA (2015 to 2017) (Sem.-3)
TREASURY & CREDIT RISK MANAGEMENT
Subject Code : MBA-925
M.Code : 70748

Time : 3 Hrs.

Max. Marks : 60

INSTRUCTION TO CANDIDATES :

1. SECTION-A contains SIX questions carrying FIVE marks each and students has to attempt any FOUR questions.
2. SECTION-B consists of FOUR Subsections : Units-I, II, III & IV. Each Subsection contains TWO questions each carrying EIGHT marks and student has to attempt any ONE question from each Subsection.
3. SECTION-C is COMPULSORY and consist of ONE Case Study carrying EIGHT marks.

SECTION-A

1. What is Interest Rate Risk?
2. What is Asset Position Limit?
3. What is Exposure?
4. What are the objectives of Hedging?
5. Differentiate between Capital Market and Money Market.
6. What is Forex Cash Management?

SECTION-B

UNIT-I

7. Discuss the structure and organization of Treasury Management in detail.
8. Write a detailed note on Cash flow budgeting and forecasting.

UNIT-II

9. Explain the functions and features of REPOs.
10. Discuss the changing global scenario and treasury functions in detail.

UNIT-III

11. What are the Risks that are related to Treasury Management? Discuss.
12. Discuss Risk immunization strategies in detail.

UNIT-IV

13. Explain the advantage and disadvantage of Options.
14. Discuss the functions of ALCO Management in detail.

SECTION-C

15. **Read the following case study in detail and answer the questions :**

Credit risk has a number of sub-issues including concentration risk and settlement risk. Concentration risk arises when there are a large number of exposures to parties that share similar characteristics. Settlement risk arises when a clearing agent or third party processes transactions for other parties. Indeed, financial institutions have recognized the importance of measuring credit concentration risk in addition to the credit risk of individual loans. That is, they examine not only individual risks but also the total credit risk characteristics at the portfolio level. Settlement risk is particularly important for financial institutions that process a large number of high-value transactions. Prior to 1974, settlement risk was not considered a major issue by banks until a small German bank defaulted on interbank payment transactions after receiving payment from counterparties. Bank's failure prompted the establishment in 1974 of the Basel Committee on Banking Supervision (BCBS). As a business grows, a greater number of exposures are acquired, increasing credit risk. As the scale increases, it is necessary for the firm to consider how concentrated its portfolio of credit customers is. In particular, two sub-types of credit risk - country risk and industry risk - affect multinational enterprises. Country risk arises from having exposure to individuals and institutions in countries that have legal systems, business codes and standards that differ from those of the lender. There are four factors relevant to this. The first is political risk, which arises when a country's government is

challenged externally or from within national borders. Political risk is more problematic in long-term lending agreements than for short-term transactions. An example of this problem is lending to countries which are highly unstable politically, and a change of regime might mean that the new government repudiates or seeks to renegotiate contracts already entered into. The second factor in country risk is economic risk, namely the depressed or declining economic stability in a country. In this situation it is sensible to question the quality of loans or credit to such a country and also to implement a limit to any such agreement. In 1997, for example, the South East Asian Crisis meant that both corporations and banks had to revise their policy towards counterparties in the affected countries. The third factor is currency risk, which always arises with cross-border lending. If a British company extended credit to, say, an Australian company in Australian dollars and the value of the Australian dollar declined, the value of the debt, in British pounds, would decline if the loan had not previously been hedged to remove the currency effect. Finally, the fourth factor is the enforcement risk from the legal system in the debtor country. Because a creditor has to go through a foreign legal system, it has been known for debtors to use their domestic legal process to stall or attempt to avoid paying, claiming that rules from their home country apply. Another important credit risk is industry risk, which is a form of concentration risk. This applies particularly when the domestic or international economy is in recession and the poor economic conditions particularly affect certain industries.

Questions :

1. What are the four factors relevant to Country risk?
2. Why Political risk is more problematic?
3. What happened during South East Asian Crisis?
4. What happens when a business grows?

NOTE : Disclosure of identity by writing mobile number or making passing request on any page of Answer sheet will lead to UMC case against the Student.