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Treasury, Trade & Wholesale Banking products

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ASSET LIABILITY MANAGEMENT

- The primary function of the treasury department of any banks is to ensure that its assets match its liabilities in every possible way.
- It is the job of the treasury department to prepare various financial models which help on forecasting the amount of net interest income that the bank stands to make if different economic scenarios play out.
- The treasury department collates this critical information and then passes the same on to decision makers who then decide the kind of assets that they want on the banks balance sheet.
- These decisions are then further translated into loan targets which bank officials have to meet.
- Also, based on the information received from the treasury, the bank refrains from using certain kinds of deposit liabilities. Hence, treasury department profoundly influences both deposit taking and loan sanctioning functions of the bank.

Notes



CAPITAL AND RESERVE REQUIREMENTS

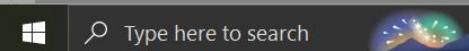
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- Since the treasury department is basically in charge of the bank's balance sheet, it is also responsible for setting aside reserves to meet the reserve requirements prescribed by the Central Bank.
- Also, the capital requirements prescribed by the Basel norms have to be met. Failing to meet these requirements has detrimental consequences since penalties are levied by the Central Bank.
- At the same time, holding an excess amount in reserves provides no benefit since such amount does not earn interest at the market rate and therefore represents opportunity loss for the bank.

Notes

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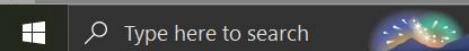
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LIASIONING WITH REGULATORY BODIES

- The treasury department of banks is highly regulated.
- Since they are the ones that are supposed to maintain the capital adequacy ratios and reserve ratios, they are also the ones that are supposed to liaise with regulatory agencies on such issues.
- Executives from the treasury department are usually invited by the government when decisions regarding the banking industry need to be made.
- Such executives also lobby on the industry's behalf if adverse regulations are put into place.

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LIQUID INVESTMENTS IN GOVERNMENT SECURITIES

- Treasury departments at banks are also in charge of maintaining a certain portion of their portfolio in highly liquid government securities.
- In other countries like India, banks are required by law to maintain a certain percentage of their portfolio in liquid government securities.
- This lends safety to the bank's portfolio while simultaneously creating a highly liquid market for government securities.

Notes



DISASTER MANAGEMENT

- The treasury operations of any bank are responsible for managing its operations in the event of a disaster.
- Thus, to be prepared for the same, the treasury department has to anticipate the risks that can materialize over time.
- Apart from that, treasury departments are also important for insuring all the physical assets, the destruction of which can have a material impact on the bank's business.

Notes



BACK OFFICE FUNCTIONS

- **Treasury departments also have to perform a lot of normal back-office activities.** They are supposed to regularly communicate with their branches regarding the extent of deposits that have been taken and the extent of loans that can be made.
- They also have to liaise with Forex department and proprietary trading department to monitor the amount of risk that the bank can take in real time. At the same time, the treasury department is responsible for ensuring that all branches, as well as ATM's, are well stocked with cash to meet the service levels.
- When banks run out of cash, it severely affects their reputation. The treasury department conducts complex calculations to ensure that adequate amount of cash is available wherever required to avoid such situations.
- The treasury department is, therefore, the heart of the banking industry. Executives working in this department get a bird's eye view of the operations of a bank that are spread out over cities, nations and even continents.
- These executives understand the concept of cost of funds and oversee its application.

Notes



BANK TREASURY V/S CORPORATE TREASURY

BANK TREASURY

RESERVE REQUIREMENTS

TRADING IN SLR/NON SLR SEC.

LIQUIDITY MANAGEMENT

FOREIGN EXCHANGE

HEDGING: RISK MANAGEMENT

CORPORATE TREASURY

LIQUIDITY PLANNING & CONTROL

CASH MANAGEMENT

RESOURCES RAISING : ST/LT

RISK MANAGEMENT

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WHOLESALE BANKING

- Wholesale banking refers to those banking services that are offered to institutional customers, government agencies, local governments, companies with huge balance sheets etc. it also includes interbank lending and borrowing.
- Banks of India commonly use this business segment and it is popularly known as corporate banking or commercial banking in India.
- This is in direct contrast to retail banking that is provision of banking services to individual people.

Notes



Features of Wholesale Banking

Large Scale Operations

Low Operational Cost

High Risk Involved

Control Over Financial Transaction Monitoring
and Recovery

Huge Impact on Non-Performing Asset

High Cost of Deposit

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SERVICES OFFERED BY WHOLESALE BANKING

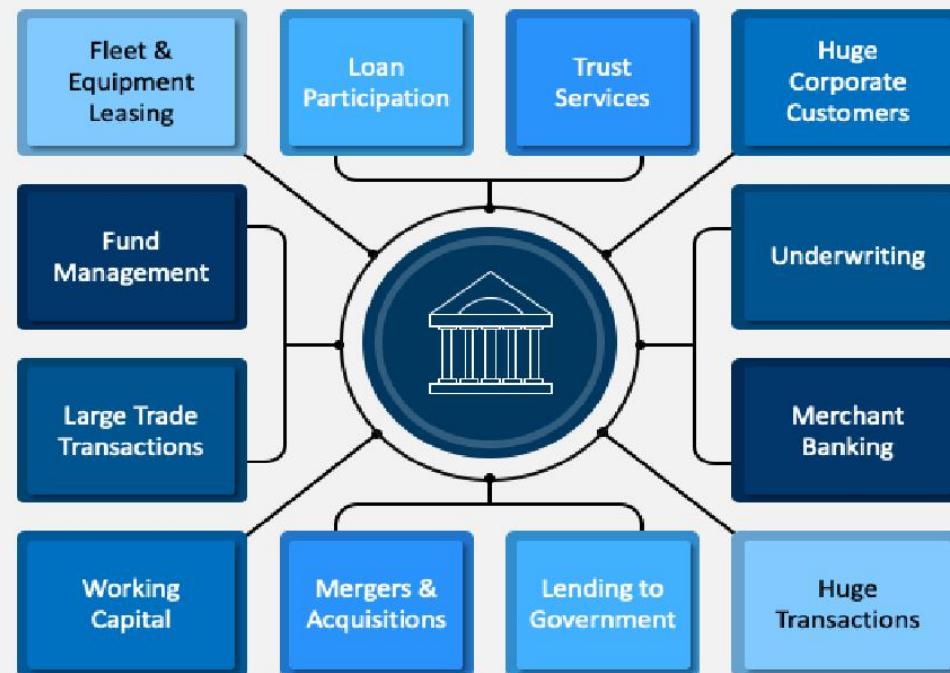
Services that included in wholesale banking are –

- large trade transactions
- working capital
- underwriting
- M&A (mergers and acquisition)
- currency conversion
- loan participation
- merchant banking
- trust services

Notes

WHOLESALE BANKING

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Notes



WHOLESALE BANKING SERVICES

- Specialised Finance.
- Loan Syndications.
- Structured Transactions.
- Securitisation.
- Credit Structuring.
- Public Sector Infrastructure financing.

Notes

A screenshot of a Microsoft Edge browser window. The main content area displays a slide from a presentation. The slide features the Manipal Global Skills Academy logo at the top left, followed by the title "WHOLESALE BANKING SERVICES" in a large, bold, dark font. Below the title is a bulleted list of six banking services, each preceded by an orange circle. The list includes: "Specialised Finance.", "Loan Syndications.", "Structured Transactions.", "Securitisation.", "Credit Structuring.", and "Public Sector Infrastructure financing.". At the bottom right of the slide, there is a small "Notes" button. The browser's address bar shows a URL related to Lumen learning center. The top of the screen has several other open tabs, including "PDF to JPG Converter | Convert", "Shubha-slack/Learning-Module", and "lumen.u-next.com/learning-center...". The Windows taskbar at the bottom of the screen shows various pinned icons and system status information, including the date (17-11-2024), time (11:50), weather (27°C Haze), and language (ENG).



DIFFERENCES BETWEEN WHOLESALE AND RETAIL BANKING

Wholesale banking

- Banking services that are offered to institutional customers, government agencies, local governments, companies with huge balance sheets etc.
- Funds are taken from large entities and invested back into them.
- There are low volumes of large transactions.
- Example: HDFC

Retail banking

- Banking services are offered to individual customers.
- Funds are taken from individual customers and given to them.
- There are large volumes of low transactions.
- Example: PNB

Notes

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Wholesale Banking vs. Retail Banking



Wholesale Banking

Customers

Governments, corporates,
etc.

Retail Banking

Individuals, small
companies, etc.

Transactions

Constitute large
transactions

Large volume of small
transactions

NPA risk

High

Low

Financial services

M&A, working capital
financing, pension
disbursement services, etc.

Checking and savings
accounts, housing
loans, etc.





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INTERNATIONAL BANKING IN INDIA

- The international banking services in Indian banks are to the benefit of Indian customers, Corporates, NRIs, foreign companies/individuals through the Authorized dealers and integrated treasury operations.
- The banks provide facilities and products as per guidelines of Reserve Bank of India.
- NRI banking, foreign currency loans, facilities to importers and exporters, remittances (inward and outward), forward sales and purchase contracts booking, cross currency, interest rate swap.
- Forex money market operations are some of the major products and services offered by authorized foreign exchange branches of the bank.
- Correspondent banking relationship and swift transfers coupled with technology transfers aid authenticity to the messages.

Notes



DYNAMICS OF FOREIGN EXCHANGE MARKET

- The foreign exchange market is the market where the currency of one country is exchanged for that of another country and where the rate of exchange is determined.
- The genesis of foreign exchange market can be traced to the need for foreign currencies arising from:
 - International trade
 - Foreign investment
 - Lending to and borrowing from foreigners

Notes



FOREIGN EXCHANGE MARKET AND RBI

With the increase in India's foreign trade, several scheduled commercial banks were authorized by the Reserve Bank to deal in foreign exchange business. This led to the formation of Foreign Exchange Dealers Association of India (FEDAI). The prime functions of FEDAI are:

- To coordinate with RBI in proper administration of foreign exchange
- To circulate information amongst its members that is likely to be of interest to them.
- FEDAI acts as a mouthpiece of the authorized dealers (ADs) and represents their views to the RBI and other international agencies.
- To frame rules for the conduct of foreign exchange business in India.

Notes



INTERNATIONAL BANKING DIVISION

International banking division of the bank may deal directly or through recognised exchange brokers as per RBI norms and adhering to FEDAI rules and regulations in following category of operations in foreign exchange market:

- Calculation of Exchange Rates (Card Rates) and Its Circulation to Authorized Branches.
- To Maintain Nostro Accounts in Foreign Currencies with Foreign Banks.
- To Issue General Guidelines to Authorized Branches and be a link between RBI and these Branches.
- Management of Foreign Currency Assets and Liabilities for the Bank.

Notes



FOREIGN EXCHANGE CORRESPONDENT BANKING RELATIONS

Foreign Exchange branch of a Bank has agency arrangements with various Foreign Banks On reciprocal Bases in the following categories:

- **NOSTRO ACCOUNT:** An account maintained by an **Indian bank with a bank abroad in foreign currency.** “Our Account with You”. For example: Punjab National Bank having an account with American Express Bank in USD.
- **VOSTRO ACCOUNT:** An account opened by a **foreign bank with an Indian bank in rupees.** “ Your Account with Us”. For example: American Express Bank having an account with Punjab National Bank in INR.
- **LORO ACCOUNT:** For example Oriental Bank is having an account with Chase. When Bank of Baroda refers to this a/c while corresponding with Chase, it would be referred as LORO a/c. “**Their a/c with you**”

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Nostro Account

It can be defined as a bank account open by any commercial bank of a country in any bank of a foreign country with a denomination of foreign currency.

Vostro Account

It refers to an account held by a foreign-based bank in the domestic currency with the domestic bank of the country.

Loro Account

When domestic banks use the account of the third-party banks which holds a Nostro account to settle foreign exchange transactions then these type of transactions are included under the Loro account.

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BANK AS FOREX DEALER

- Foreign exchange transactions are through Bank's dealing rooms. It offers a two way quote to purchase and sale foreign currency.
- One dealing room of the bank has almost 100 dealers, operating from the same room dealing in different currencies, markets and products.
- It connects with foreign exchange branch of the bank and branch deals with exporters, importers, investors, hedgers and individuals.
- Bank's Forex risk exposure can be in following ways:
 - Intra-day open position in each currency
 - Overnight open position in each currency, should be less than intra-day open position.
 - Aggregate open position for all currencies
 - Turnover on daily transaction volume for all currencies
 - Country wise exposure of the bank's customer and bank's investments.

Notes



Thank You

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