BUS 442 FINAL EXAM BİLGİ UNIVERSITY 01 June 2019

Q (1) (25 marks) Prepare the below Financial Statements of a sample Commercial Bank using your own numbers:

1. Balance Sheet of a bank
2. Income Statement of a bank

Q (2) (25 marks) Mismanagement of “Interest Sensitivity Gap Position” (ISGP)may generate a loss for a bank.

A) Explain in detail the “Interest Sensitivity Analysis” in a bank

B) Define IRSG Position and IRS Ratio

C) Explain the different types of IRSG positions a bank should apply. Explain why such a strategy may protect a bank to make a loss.

Q (3) (25 marks) Banks have foreign Currency Assets and Foreign Currency Liabilities on their Balance Sheet.

A) Define the 4 different types of Foreign Exchange Risks

B) Define the different types of Foreign Exchange Positions a bank may have.

C) Explain the different types of Foreign Exchange Position Strategies that a bank should take in order not to make a loss.

Q (4) (25 marks) A four-year bond with a yield of 5% (continuously compounded) pays an 8% coupon at the end of each year. Par value of the bond is $100.

a) What is the bond’s price?

b) What is the bond’s duration?

c) Use duration to calculate the effect on the bond’s price of a 0.3% inrease in its yield.