

ABSTRACT

The study examine about the interest rate risk management by banking institutions in emerging (developing) markets. First, various financial risk which financial institution are exposed to were explained i.e. market risk, credit risk, currency risk etc. In additional to that, common assessment ways used by different banking institutions in relation to management of risk was discussed.

Basically, interest rate risk can be measured by different ways; but most common used approaches are repricing gap analysis and simulation analysis. These approaches were discussed theoretically in relation to Exim Bank (T) Ltd., which was used as a case study of this study.

Also, the management of interest rate risk were discussed, and it was noted that; the management techniques varies from past strategies to newly promoted financial instruments. The past techniques revolve around balance sheet positioning of asset a liabilities, while the newly technique are the one based on using financial derivatives i.e. swaps, futures etc.

It was noted that, financial derivatives are so effective in managing interest rate risk compared to the balance sheet positioning strategies, which involve the alteration of banks' balance sheet and proved costly most of the time. Though, financial derivatives are not popular used in developing countries (since many developing countries financial system don't offer it), many banking institutions are slowly starting to implement it. i.e. Exim Bank (T) Ltd started to offer interest rate swaps.

In conclusion, the recommendations to banking institutions regarding the need for introducing many financial derivatives so as to hedge the exposure of interest rate risk were given.

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