



Making treasury an enabler of balance sheet growth

October 2026



The better the question.
The better the answer.
The better the world works.



Shape the future
with confidence

Bank treasury management:

Moving from compliance to competitive strategy

For much of the last decade, Indian bank treasuries operated largely in a reactive mode – managing liquidity buffers, facilitating RBI compliance and capturing yield where rate cycles permitted. That posture is no longer sufficient. The convergence of elevated rate volatility, progressively demanding capital frameworks and intensifying competition for retail deposits has fundamentally altered the operating environment.

Although banks may be tempted to chase trading gains or complex structured products, sustainable performance comes from disciplined balance sheet management and strong fundamentals. Getting back to basics means enabling efficient funding, accurate pricing and prudent liquidity and capital utilization before layering on client-driven product sales and selective market risk-taking as per safe and balanced risk appetite. This would not only protect a bank's earnings stability but also build the infrastructure and credibility needed to scale fee-based and trading income over time.

Bank treasury and balance sheet improvement is about maximizing risk-adjusted returns on capital while staying within liquidity, capital and regulatory constraints. Bank treasuries should operate with the objective of not just increasing profitability but also allocating every dollar of funding, capital and liquidity as effectively as possible.

1

Strategic drivers for banks to actively manage liquidity

Many factors have prompted banks to actively manage their balance sheets. This reflects a structural change in how Indian banks should think about income generation. Treasury's contribution – from investment portfolio returns, hedging income and client product revenues – is increasingly becoming the difference between acceptable and strong financial performance. Some of the factors impacting investment decisions for bank treasuries are as follows.

Why active treasury management has become critical for banks

Strategic driver	What it means	Why it matters for treasury
Capital efficiency	Capital rules, such as Basel III/IV and local RBI norms, link required capital to risk-weighted assets (RWAs), reducing risk intensity without sacrificing income improves returns.	Treasury should help enhance balance sheet usage so that the bank can generate stronger return on equity from the same capital base.
Net interest margin pressure	Competition for deposits and volatile policy rates reduce the ability of banks to depend on loan pricing alone.	Treasury income from investment activity, risk management and liquidity deployment becomes an essential support to overall earnings.
Liquidity and funding stability	Liquidity ratios and stress testing require banks to manage funding sources and maturity profiles more carefully.	Treasury plays a central role in enhancing the mix of wholesale and retail funding while maintaining resilience during periods of stress.
Rate cycle and macro volatility	Changes in interest rate environments can materially affect balance sheet performance through shifts in asset and liability sensitivity.	Treasury should actively manage exposures to reduce earnings volatility and protect the bank during both rising and falling rate cycles.
Regulatory and ESG constraints	Leverage limits, concentration rules and sustainability commitments increasingly shape how banks can allocate assets.	Treasury needs to balance profitability with regulatory compliance and evolving strategic constraints on portfolio construction.

Key levers for balance sheet adjustments

Balance sheet adjustments include changes to the composition and structure of assets, liabilities and off-balance sheet items. The primary levers across each of these factors are as follows.

Asset side

- **Changing RWA mix:** Shifting the portfolio mix from high-RWA corporate loans to lower-RWA mortgages, sovereign securities or secured lending. Securitization and credit risk transfer could free up capital without shrinking the book.
- **Duration management:** Aligning asset duration with the liability profile to reduce interest rate risk. Government bonds, interest rate swaps and futures have become important tools in this process.
- **Liquidity portfolio:** Holding High Quality Liquid Assets (HQLA) to meet Liquidity Coverage Ratio (LCR) requirements, while enhancing yields through maturity laddering and repo market participation, can help improve the bank's asset profile.

Liability side

- **Funding mix:** Treasuries can consider replacing expensive wholesale funding with stable retail deposits and focusing on current and savings account (CASA) deposits, since they are low-cost and sticky.
- **Tenor extension:** Issuing longer-term debt, such as subordinated bonds or covered bonds may help improve Net Stable Funding Ratio (NSFR) and reduce rollover risk.
- **Pricing discipline:** Bank treasuries may imbibe pricing discipline using Funds Transfer Pricing (FTP) to allocate funding cost accurately across business lines and discouraging low-return lending.

Off-balance sheet and hedging

- **Derivatives:** Using interest rate swaps (IRS), foreign exchange (FX) swaps and cross-currency swaps could hedge structural foreign exchange and interest rate gaps.
- **Capital relief trades:** Treasuries can consider synthetic securitizations to transfer credit risk while retaining customer relationships.

Key initiatives to enhance treasury income

Having established the key levers for balance sheet optimization, the focus shifts to translating these structural advantages into sustainable earnings. Treasury can enhance profitability through active management of investments, liquidity, funding, client flows and technology-enabled decision making. Treasury income is not solely trading profit and loss (P&L), but a mix of carry, valuation and fee income. A well-constructed portfolio could generate consistent accrual income with limited capital consumption. Banks should consider building a portfolio considering multiple market aspects, including timing, rates and flexibility.

1 Carry and yield enhancement

Bank treasuries should build a hold-to-collect portfolio. They may rotate investments from lower-yielding assets into higher-spread alternatives, building an investment portfolio to capture accrual yield, especially when rate cycle is near peak. Treasuries should also selectively add high-quality credit exposures within Asset Liability Management (ALM) limits to capture incremental spread over sovereign benchmarks without compromising credit standards or liquidity requirements.

2 Trading and market-making

Treasuries may selectively undertake proprietary trading strategies within approved risk limits. These strategies may include taking views on interest rates, yield curve movements, basis spreads or cross-market opportunities. Treasuries can also capture arbitrage opportunities arising from pricing inefficiencies between cash and futures markets, onshore and offshore markets, or different segments of the yield curve, thereby generating incremental risk-adjusted returns.

Bank treasuries can also enhance income through active market-making and client flow businesses. In essence, client flows provide liquidity, information and inventory, which when combined with disciplined risk limits, allow the bank to layer higher-margin trading income on top of its core execution revenue. By facilitating customer transactions across fixed income, foreign exchange and money markets, treasuries earn bid-offer spreads while building valuable market intelligence.

3 Liquidity and repo management

Treasuries can raise income through collateral management where they enhance collateral pledged for clearing and repo to reduce haircuts and funding costs. They can also better utilize intraday liquidity, using intraday repo and interbank markets to reduce idle cash balances.

4 FTP and business support

Treasuries can enhance FTP refinements by implement risk-adjusted FTP that charges businesses for liquidity, interest rate and optionality risk, encouraging origination teams to move toward better-priced loans and deposits. Treasuries can also run balance sheet simulations, including scenario analysis of interest rate shocks and embed these insights into product pricing.

5 Technology and data

Investing in real-time ALM systems can provide better analytics on behavioral assumptions for non-maturing deposits and prepayments, improving hedging accuracy. Bank treasuries are also increasingly using AI for cashflow forecasting, reducing the need for precautionary liquidity buffers and freeing up funds for deployment into higher-yielding assets.

2

Pathways to sustainable treasury income

When discussing income improvements, the biggest impact usually comes from the combination of FTP discipline and RWA enhancement. Trading alone is often volatile and capital-intensive, while FTP changes flow through every business line consistently. Although, carry and structural yield remain the most stable foundations, bank treasuries view revenue enhancement as a well-constructed portfolio which generates consistent accrual income. Treasury revenue generally falls into three categories: market trading P&L, client flow from treasury products and fee-based income.

While revenue enhancement is the goal, VaR, preset value of a basis point and liquidity limits often act as constraints. Banks may adjust these by improving hit ratios and reducing holding periods rather than increasing size.

Treasury revenue levers: Structured view

Category	Lever	Description	Revenue source
 Distribution/client solutions	Foreign exchange risk solutions	Provide tailored hedging solutions to manage currency risk for corporates engaged in cross-border activities	Pricing spreads and premiums on customized structures
	Interest rate risk solutions	Help borrowers manage exposure to fluctuations in borrowing costs, especially during volatile rate cycles	Structuring fees and pricing spreads
	Commodity risk solutions	Enable corporates to manage volatility in input or energy prices through customized arrangements	Pricing spreads and structuring margins
	Investment distribution	Facilitate access to short- and medium-term investment avenues for corporates and affluent clients	Distribution fees and pricing spreads
	Structured solutions	Design customized offerings combining principal protection features with market-linked returns	Higher margins, subject to suitability and compliance

Category	Lever	Description	Revenue source
 Fee-based income	Transaction fees	Charge for payment flows and trade-related services, including cross-border transfers and guarantees	Per-transaction fees and pricing margins
	Syndication and placement fees	Arrange and facilitate external funding programs for clients by leveraging investor networks	Arrangement and placement fees
	Custody and clearing fees	Offer settlement, servicing and safekeeping support for client assets	Custody and servicing fees
	Advisory fees	Provide balance sheet, risk management and regulatory advisory to corporates lacking treasury knowledge	Advisory and consulting fees
	Digital platform fees	Monetize digital platforms that enable execution of treasury and financing activities	Subscription or per-transaction fees
 Trading (proprietary)	Interest rate positioning	Take directional and curve shape views based on macro and policy expectations	Trading gains (risk-adjusted returns)
	Foreign exchange trading	Capture spreads and benefit from volatility in currency markets through client and proprietary activities	Bid-ask spreads and trading P&L
	Basis and arbitrage	Capitalize on pricing inefficiencies across related markets or segments	Arbitrage gains
	Credit trading	Participate in secondary market activity to benefit from movements in credit spreads	Spread compression gains
	Algorithmic and flow trading	Use automated systems to monetize small spreads across high-frequency transactions	Volume-driven spread capture

For trading income, volatility and client flow quality move the needle the most, while for product sales, relationship manager (RM) incentive alignment and digital onboarding do. For fees, moving from manual transactions to platform-based services with volume-based pricing makes the most impact. Banks should be careful, as regulators closely watch the mis-selling of structured products. Therefore, documentation of controls and suitability is non-negotiable.

A practical checklist that can be used to sequence treasury and balance sheet initiatives from conservative to aggressive is depicted below. The idea is to start with low-risk, capital-light actions that strengthen the foundation and then layer in market and credit risk only after controls and data are solid.

Treasury and balance sheet strategy checklist: From conservative to aggressive

Phase 1: Foundation -

Low risk, high certainty. These improve efficiency without taking material market or credit risk.

1. **FTP framework refinement:** Implement risk-adjusted FTP for liquidity, interest rate and optionality costs. Product pricing should reflect the true funding cost so that business lines do not originate loss-making assets.
2. **CASA and retail deposit growth:** Focus on low-cost, sticky deposits to reduce wholesale funding dependence and improve NSFR. Enhance branch and digital channels for customer acquisition and retention.
3. **Liquidity buffer management:** Review behavioral assumptions for non-maturing deposits and prepayments in ALM models. Reduce idle cash by improving intraday cashflow forecasting and collateral management.
4. **Regulatory compliance hygiene:** Meet LCR, NSFR, leverage ratio and large exposure limits with minimal excess buffers. Avoid holding unnecessary HQLA that shifts down yield.

Phase 2: Balance sheet efficiency -

Moderate risk. These improve capital efficiency and net interest margin (NIM) without directional market positions

1. **RWA management:** Shift portfolio mix toward lower-RWA assets such as mortgages, sovereign bonds and secured SME loans. Explore synthetic securitization and credit risk transfer for corporate loan portfolios.
2. **Duration and tenor matching:** Ladder the investment portfolio to align with the liability profile and reduce rate sensitivity. Issue longer-term debt such as covered bonds or Tier-2 bonds to improve funding stability.
3. **Hedging structural risks:** Use IRS and FX swaps to hedge structural interest rate and currency gaps. Adopt macro hedging rather than trade-by-trade to reduce costs.

Phase 3: Revenue enhancement -

Higher risk, client-drive. These monetize client flows and market intelligence with controlled risk.

1. **Treasury product sales to clients:** Build out FX and interest rate hedging solutions for corporate clients through RM teams. Standardize pricing and scenario tools for forwards, options, IRS and caps/floors. Establish strong suitability and compliance processes before scaling structured products.
2. **Fee-based income expansion:** Price trade finance, guarantees, remittances and custody services competitively. Launch digital platforms for online FX booking and supply chain finance with per-transaction fees. Develop loan syndication and commercial paper (CP)/bond placement capabilities using investor network.

Phase 4: Trading and carry -

Aggressive, capital-intensive. These require strong risk management infrastructure and should operate within strict VaR/PV01 limits.

1. **Yield carry portfolio:** Build a hold-to-collect portfolio of government securities (G-Secs) and state development loans (SDLs) to capture accrual yield, timed with rate cycle. Add high-grade corporate bonds for spread pickup within credit limits.
2. **Proprietary trading and arbitrage:** Execute directional and relative value trades in rates and FX within approved risk limits. Explore opportunities in cash-futures basis onshore-offshore non-deliverable forward (NDF) bases and term structure arbitrage.
3. **Algorithmic flow trading:** Deploy algorithmic trading capabilities to monetize small spreads across high-volume client FX and rate flows.

Conclusion

From treasury control to competitive advantage

Indian bank treasuries have evolved beyond liquidity management and regulatory compliance to become strategic drivers of ALM, balance sheet optimization, regulatory buffer management, capital efficiency and sustainable risk-adjusted returns. In an environment characterized by capital intensity, margin pressure, funding volatility and tighter regulatory constraints, treasury is increasingly central to delivering balance sheet resilience and sustainable profitability. The most sustainable path begins with strong fundamentals – efficient funding, disciplined pricing, liquidity enhancement and careful capital allocation – before expanding into client-led solutions, fee income and selective market activities.

Ultimately, stronger treasury performance will come not from isolated trading gains but from a balanced model that combines balance sheet discipline, risk-adjusted decision-making, technology-enabled analytics and well-governed revenue diversification. Banks that sequence their initiatives thoughtfully – from low-risk efficiency improvements to higher-return opportunities – will be better positioned to enhance earnings resilience, improve return on capital and build treasury functions that support long-term competitive advantage.



Contributors

Hemal Shah

Partner, Consulting Services, EY India

Rahul Pramanick

Partner, Risk Consulting, EY India

Madhu Challagulla

Director, Risk Consulting, EY India

Ernst & Young LLP

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EYG member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit www.ey.com/en_in.

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at Ground Floor, Plot No. 67, Institutional Area, Sector - 44, Gurugram - 122 003, Haryana, India.

© 2026 Ernst & Young LLP. Published in India. All Rights Reserved.

Score number

ED None

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

SA1

ey.com/en_in

 @EY_India  EY  EY India

 EY Careers India  @ey_india