

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCE DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TREASURY MANAGEMENT 2**

**Date: Tuesday, 15th May 2018**

**Time Allocated: 3 hours (13:30 – 16:30 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section

**QUESTION 1**

1. Refer to the table below and answer the following questions:

**NYASA BANK LTD FX RATES: 02.02.2018**

|  |  |  |
| --- | --- | --- |
|  | **BID** | **OFFER** |
| USD/MWK | 718 | 733 |
| EUR/MWK | 820 | 835 |
| ZAR/MWK | 55.25 | 58.30 |

**Required**

1. Lukhozi Magic Centre would like to import children’s toys from South Africa at a total cost of ZAR 2 million. How much is payable in MWK equivalent? *(2 marks)*
2. Assuming the supplier in South Africa had decided a last-minute invoice discount, and this happens after the bank had already committed the ZAR 2 million to Lukhozi. How much MWK equivalent would the customer receive if the discount amount of ZAR 18,000.00 was sold back to the customer? *(3 marks)*
3. Another client who holds an EUR foreign currency denominated account has just received ZAR3,750,000 on exports to South Africa, how much will be credited to their EUR account? *(4 marks)*
4. The one-month (31 days) USD interest rate is 3.0% per annum and the MWK interest rate is 12.0% per annum. If the current spot rate is MWK718.00/US$, what is the one-month Forward Rate?

**Note:** Show **ALL** your workings clearly, step by step. *(6 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Assume that LEVBRO Limited operates in all EUR zone countries and has a centralized treasury division based in Hamburg, Germany. The firm gets the following quotations for the EUR/USD at Barclays London and ABN AMRO Amsterdam.

|  |  |
| --- | --- |
| **BARCLAYS** | **ABN AMRO** |
| $0.635 (bid) | $0.645 (bid) |
| $0.640 (offer) | $0.650 (offer) |

**Required**

1. Identify arbitrage opportunities, if any, given the above exchange rate quotes.

*(4 marks)*

1. Assuming LEVBRO had an amount of USD 500,000.00, demonstrate how much profit/loss the firm would make in an attempt to exploit the given exchange rates.

(*5 marks)*

1. Technically, what name is given to the profit/loss derived from (a)(ii) above.

*(1 mark)*

1. Ascertain how the market would realign to equilibrium given the scenario in (a) above. (*5 marks)*

**(Total 15 marks)**

**QUESTION 3**

K50 million nominal/face value of a 12% Treasury Bond maturing on 5 April 2022 is settled on 20 September 2017 for a price of 107.45 and previous interest payment was paid on 5 April 2017.

**Required**

1. Assuming that the Treasury Bond use 365 days in a year and follow a normal business calendar, calculate the number of days of accrued interest. *(4 marks)*

1. Calculate the accrued interest to the day of settlement of the Bond. *(3 marks)*
2. Calculate the Dirty Price of the Bond. *(4 marks)*
3. Calculate the total cost of the Bond. (*4 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Zomba Merchant Bank lends K10 m for 18 months (547 days) at a rate of 25% and funds this deposit by contracting 9 months (273 days) at 12%. At what rate must the bank rollover the 9-month deposit for a further 274 days in order to break even on these transactions?

**Hint**: Calculate the Forward Interest Rate. *(10 marks)*

1. If the haircut on a repo transaction is 7.5%, determine the maximum amount of money that could be borrowed in respect of collateral worth MWK100 million.

*(5 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

Assume that countries within the SADC region are agitating for a regional currency and that you have been asked to provide an advisory role to the Presidents of these countries. Discuss in detail the pros and cons of this choice of currency regime.

**(Total 20 marks)**

**QUESTION 6**

1. Kings Palace Hotels Plc issues a 62 days commercial paper worth K1 billion which is bought by one of the banks in Malawi. The bank decides to sell the paper after 30 days at a rate of 18.0%.

**Required**

Determine the proceeds realized in the secondary market. *(4 marks)*

1. Bank ADB buys K100,000,000.00 of 182 days Treasury Bills at a rate of 15% and sells it at a yield of 12% after 51 days

**Required**

1. Determine the purchase price of the bills. *(4 marks)*
2. Given that a 91-day T-Bill has a discount rate of 12.55%, what is the equivalent yield? *(3 marks)*

(c) Explain **three** factors that affect the current account balance in Malawi. *(9 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Describe how you would use a protective put to hedge a long position in a stock of shares against downside risk. *(4 marks)*
2. Define a re-invoicing centre and state **two** advantages that accrue to a Multi-national corporation that makes use of this arrangement? *(4 marks)*
3. The Board of a large local lumber manufacturer is considering establishing operations in a foreign country.

**Required**

Recommend the action by providing **three** arguments in favour of Foreign Direct Investment (FDI). *(12 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Define market risk and discuss in detail **five** major types of Market risk. *(12marks)*

1. Assume that Lukhozi Brothers Limited, a Multi-national company operating in the SADC region has gone through the currency regimes as below:
2. 1995 - 2007 Free Floating Currency regime
3. 2007 – 2017 Single Currency regime

**Required**

Explain in detail the impact of the above exchange rate regimes to the company.

*(8 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**