

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TREASURY MANAGEMENT 1**

**Date: Monday, 23rd November 2020**

**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**

The Monetary Policy Committee (MPC) of Reserve Bank of Malawi has introduced an interest regime, where banks should quote the interest rates on lending based on the Lombard rate.

1. In your understanding explain the term Lombard rate.  *(3 marks)*

1. As an adviser of a bank that was quoting an average effective rate of 23% on lending, what is your suggestion to the said bank, with justification, if the Lombard rate is at 14.9%? *(4 marks)*
2. If the policy rate has dropped from 16% to 14.5%, what are the **two** likely actions of financial institutions? *(4 marks)*
3. If the MPC further reduce the liquidity reserve ratio from 7.5% to 5%, comment the impact on money supply in the economy, using a hypothetical example of a bank with a deposit base of K100m.  *(4 marks)*

**(Total15 marks)**

**QUESTION 2**

The following is an extract of rates from NBM as at 13th February 2019 :

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **CURRENCY** | | **CAD \*\*** | **ZAR\*\*** | **EUR \*** | **JPY \*\*** | **MWK \*\*** |
| **Buying** | **RATE/USD** | 1.3208 | 13.7065 | 1.1337 | 110.6100 | 721.0038 |
| **Selling** | **RATE/USD** | 1.3209 | 13.7215 | 1.1338 | 110.6400 | 739.7500 |

Note: \* 1 unit of the currency = so many USD

\*\* 1 unit of USD = so many of the currency

1. A Haulage Company wants to pay for an importation invoice of USD236,240 and the bank has the following additional charges:
2. K1.00 for stamp duty
3. Swift charge K21,600
4. 1% commission (minimum K6,900 and maximum K31,800)

What is the total cost to the company in MWK for the invoice? *(5 marks)*

1. What is the buying rate of MWK to JPY? *(2 marks)*
2. A dealer who had EUR10,000 on the day, sold it for ZAR on the market. What did the dealer get in ZAR? (use buying rates for conversation)  *(4 marks)*
3. From the quoted rates, which one is stronger between CAD and EUR? (Show your working to authenticate your statement). *(4 marks)*

**(Total 15 marks)**

**QUESTION 3**

The following table is an extract of two banks’ portfolios as at 10th February 2019.

|  |  |  |
| --- | --- | --- |
|  | FC Bank | NF Bank |
| Deposits | K40,000,000,000.00 | K50,000,000.00 |
| Loans | K35,000,000,000.00 | K28,000,000.00 |
| Average Deposit rates | 10% | 11% |
| Average Lending rates | 23% | 24% |

1. Calculate the gaps for each bank. *(2 marks)*
2. Calculate the income margins on the two banks, with an assumption that the Liquidity Reserve Ratio is at 5%. *(5 marks)*
3. Highlight the effects of interest rates on the two banks, if the policy rate declines by 2%, thereby having a similar impact on both lending and deposits.  *(6 marks)*
4. If the LRR declines to 3.5%, what will be the effect on the interest expense for both banks? *(2 marks)*

**(Total 15 marks)**

**QUESTION 4**

(a) The following is an extract of a deal blotter on 13th February 2019:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **USD** | **OPENING MID RATE** | **BUYING RATE** | **SELLING RATE** | **CLOSING MID RATE** |
| **B/F** | -151,667 | 728.3376 |  |  |  |
| **PURCHASE** | 71,387 |  | 721.0038 |  |  |
| **SALE** | 62,788 |  |  | 739.7500 |  |
| **CLOSING BALANCE** | XXXX |  |  |  | XXXX |

Note: the rates are for MWK and are formulated once a day

1. Calculate the closing middle rate. *(2 marks)*
2. What similarity is there between the opening and closing positions of the dealer? Suggest why it is like that. *(3 marks)*
3. Calculate the revaluation profit or loss on the day. *(2 marks)*
4. The trading profit or loss on the purchase. *(3 marks)*
5. The trading profit or loss on the sale. *(3 marks)*
6. The gross revenue for the day. *(2 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

The financial system is very important in an economy. Back the statement by:

1. Defining what is meant by the term ‘financial system’? *(4 marks)*
2. Explain the four sectors of the financial system. *(8 marks)*
3. Explain how individually each sector is affecting the Malawi economy. Provide clear example in the explanations. *(8 marks)*

***(Total 20 marks)***

**QUESTION 6**

You are analyzing the financial industry and, in your group, you have been given a task to prepare notes on the following:

1. Clearly relating to the Malawi economy, analyze **five** needs of having the Reserve Bank of Malawi. *(10 marks)*

1. Distinguishing between market makers and brokers. For each, give an appropriate example. *(4 marks)*

1. What are the main distinguishing characteristics of money markets and capital markets, giving an example of an instrument traded in each market? *(6 marks)*  **(Total 20 marks)**

**QUESTION 7**

There has been an outcry that financial institutions are exploiting clients in the economy. Based on the dealing code of ethics, write a paper for the Bankers’ magazine in which you address the following: **(note: this should be in essay format)**

1. What is meant by dealing code of ethics?
2. Explain at least **eight** areas that the dealing code of ethics addresses.
3. Summarize with your own opinion on the matter.

**(Total 20 marks)**

**QUESTION 8**

You are analyzing risks in the financial industry, and you have identified two risks that need investigating further. Prepare notes on the topic addressing the following:

1. Explain any **five** operational risks. *(10 marks)*
2. Discuss any **three** currency risks. *(6 marks)*
3. Suggest any **two** ways in which the currency risks could be mitigated. *(4 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**