

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TREASURY MANAGEMENT 1 (IOBM – D201)**

**Date: Monday, 14th 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. Define the term position management. *(2 marks)*
2. The table below contains raw trading data obtained on the 15th of February 2018.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Opening** | **Rates 15 Feb 2018** | |
| **Currency** | **Position** | **Buy** | **Sell** |
| GBP(£) | 84,700.00 | 975.25 | 992.45 |
| **Purchases** | **GBP** |  |  |
| Inflex Inc. | 23,800.00 |  |  |
| Agric. Produce Ltd |  |  |  |
| Mr. Murozwa | 1,700.00 |  |  |
| Dr. Phelps | 620.00 |  |  |
| Platinum Belt Ent. |  |  |  |
| **Sales** |  |  |  |
| Pilchards Ltd. | 13,200.00 |  |  |
| Chambo Fisheries | 7,500.00 |  |  |
| Ms. Temwa Pemba |  |  |  |
| Extra Care Boutique |  |  |  |
| Hurricanes Football Club | 9,200.00 |  |  |
|  | **Opening** | **Rates 16 Feb 2018** | |
|  | **Position** | **Buy** | **Sell** |
| GBP(£) | ? | 970.51 | 987.62 |

**Required:**

Prepare dealer’s blotter for the GBP clearly showing, closing position for the trading day, and the trading profit/loss including revaluation.  *(10 marks*)

1. Comment on the exposure position effect of the indicated directional exchange rate movement in the GBP? *(3 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Give a brief explanation of the following financial expressions;
   1. Bonds are redeemed at par *(2 marks)*
   2. Implied interest rate *(2 marks)*
2. What will be the implied yield on a 2 year government bond instrument that is currently valued at K137,850 with a maturity value of K195,000? *(5 marks)*
3. As the Corporate Treasurer of Daltron Plc. a large manufacturing entity you are considering purchasing commercial paper using some of the corporation’s idle funds and you have a choice of the corporate issues in the table below;

|  |  |  |
| --- | --- | --- |
| **ISSUER** | **STANDARD & POOR CREDIT RATING** | **INTERNAL RISK RATING CATEGORY** |
| Grapevine Pty Ltd | BBB+ | 100% |
| Cornerstones Plc | AAA | 20% |
| Pulse Hospital Pvt Ltd | CCC+ | High Yield Junk Status Issue |
| Fire Light Ltd | BB- | 150% |
| Beat Tuber Sugar Plc | A- | 50% |

**Note**: assume that Daltron Plc policy is 30% of any idle funds maximum allocation limit to any single issuer security.

**Required:** Allocate K320, 000,000 Daltron Plc idle funds to the corporate issues above with the primary view of minimizing credit risk. *(6 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Briefly explain how each of the following exchange control tools operate.
   1. Capital account restrictions. *(2 marks)*
   2. Retention rule on foreign exchange earned by residents.*(2 marks)*
2. Study to table below:



**Required**

* 1. State for each maturity bucket whether the net position is an asset or liability. *(2 marks)*
  2. Calculate the corresponding liability for each maturity bucket. *(4 marks)*
  3. Identify and explain the effect on the bank’s income for each maturity bucket of a fall in interest rates.*(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Provide **one** distinction between the following pair of financial terms;
   1. Option contract and Futures contract. *(3 marks)*
   2. Broker and Market Maker. *(3 marks)*
2. Professor Bernace bought some 1,500 shares on 1st January 2017 at a price of K540.00/share, exactly after a year the share price had increased to K610.00/share. If during the year he received a dividend of K14.50/share on his shares, calculate his total return/yield on his holding. *(5 marks)*
3. Professor Bernace had previously bought a long term corporate bond at par with face value of MWK10 million and a coupon rate of 10%. Calculate the price of the bond if interest rate dropped to 7%. *(4 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

1. Explain **two** reasons why it is important for Treasury to have a moral ethical policy. *(4 marks)*
2. Provide **two** justifications in support of the need for limits in Treasury trading operations. *(6 marks)*
3. Draft a Trading Policy for possible adoption by a newly opened bank within your locality. In your draft proposal, identify **five** elements that should guide the dealing staff in their daily trading roles. *(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Provide **two** reasons why it is necessary for an institution to conduct a mark to market exercise on its financial contracts. *(4 marks)*
2. Gap analysis theory states that a **‘Gap Exposure’** arises from the differences in maturities and/or re-pricing of assets and liabilities that are interest rate sensitive. Based on this statement, discuss any four ways on how risk on the balance sheet of a bank arises. *(8 marks)*
3. Provide **four** well-argued justifications for the supervision of banks. *(8 marks)*

**(Total 20 marks)**

**QUESTION 7**

1. Define the following risk management terms;
   1. Value at Risk (VaR) *(2 marks)*
   2. Currency oversold position *(2 marks)*
   3. Credit assessment *(2 marks)* Enterprise risk management (ERM) *(2 marks)*
2. The Bank for International Settlements (BIS) through the use of the regulatory requirements under Basel II has singled out operational risk as one of the major risks facing banks. Prepare notes for presentation to new treasury recruits on what operational risk is all about. Your presentation must include a discussion of **four** operational risk examples to aid the recruits understanding. *(12 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Explain the concept of immunization in risk management.*(4 marks)*
2. How does market sentiment influence foreign exchange rates? *(4 marks)*
3. Explain how the Reserve Bank uses Open Market Operations to influence the money market. *(6 marks)*
4. You come across two men discussing the local economy and you overhear one of them say:

*“Clearly the Reserve Bank is failing in its fiscal policy roles, revenues collected by the government are not sufficient to fund public projects and they borrow a lot putting further strain on the budget.”*

**Required**

Provide a judgement on whether this assertion is correct and address the two men regarding their understanding of the roles of the Reserve Bank. *(6 marks)*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**