

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TREASURY MANAGEMENT 1**

**Date: Monday, 12th November 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. The Reserve Bank of Malawi announced a change in the policy rate by 2% on 20th December 2017. The policy rate had been at 18%, before the announcement.

**Required**

What is a policy rate? *(2 marks)*

1. ABC Bank de-escalated its base rate by 2%, from 25% as at 1st January 2018.

**Required**

In your own understanding, explain de-escalation? *(2 marks)*

1. If ABC Bank has a loan portfolio of K20bn throughout the year, what is the effect on interest earnings of the base rate change in (b) above? Show calculations. *(5 marks)*
2. If ABC Bank has a deposits portfolio of K40bn in 2017 and expected to remain constant in 2018, with Liquidity Reserve Requirement of 7.5% and average interest on deposits of 10%, what should it do to maintain the same level of profitability? Show calculations. *(6 marks)*

**(Total 15 marks)**

**QUESTION 2**

The following is an extract of rates from an Authorized Dealer Bank:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **CURRENCY/**  **DATE** | | **CAD \*\*** | **ZAR\*\*** | **EUR \*** | **JPY \*\*** | **MWK \*\*** |
| **11.01.2018** | **RATE/USD** | 1.2542 | 12.4200 | 1.1947 | 111.75 | 725.6548 |
| **18.01.2018** | **RATE/USD** | 1.2547 | 12.4100 | 0.9678 | 110.98 | 725.6548 |

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

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

**Required**

a) Convert CAD10,000 to MWK on 18th January 2018 (*4 marks)*

b) Describe the movement of the following currencies, against the USD within the week under review.

i) ZAR

ii) EUR (*4 marks)*

c) EC Investments is paying for a machine, whose price is JPY2,500,000.

1. How much could EC Investment have paid in MWK on the 11th January 2018? *(3 marks)*
2. If EC Investments uses their Euro account, what is the amount the company will pay on the 18th January 2018? *(4 marks)* (**Total 15 marks)**

**QUESTION 3**

The following is an extract of a deal blotter on 11th January 2018:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **USD** | **OPENING MID RATE** | **BUYING RATE** | **SELLING RATE** | **CLOSING MID RATE** |
| **B/F** | 145,000 | 727.8873 |  |  |  |
| **PURCHASE** | 200,000 |  | 717.3596 |  |  |
| **SALE** | 432,000 |  |  | 733.95000 |  |
| **CLOSING BALANCE** | XXXX |  |  |  | 725.6548 |

**Note:** the rates are for MWK

**Required**

Calculate the following:

1. The dealer’s position at the end of the day. *(2 marks)*
2. The revaluation profit or loss on the day. *(2 marks)*
3. The trading profit or loss on the purchase. *(3 marks)*
4. The trading profit or loss on the sale. *(3 marks)*
5. The gross revenue for the day. *(2 marks)*
6. If the dealer had bought the $200,000 at K730.0000/$, what could have been the impact on this specific deal? *(3 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Almost all the Bank rates in Malawi follow a similar pattern in terms of movements when Reserve Bank of Malawi adjusts the policy rate. Comment, with clear explanations whether the banks operate a cartel. *(5 marks)*
2. Discuss and give **five** justifications why we still need the Central Bank in a liberalized economy. *(10 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

One of the recent major developments in the global financial system is the introduction of Crypto currencies.

**Required**

1. What is meant by the term ‘financial system’? *(4 marks)*
2. Explain the **four** sectors of the financial system. *(8 marks)*
3. Explain **any two** applications of crypto currencies and **any two** challenges that they may present if adopted in Malawi.  *(8 marks)*

**(Total 20 marks)**

**QUESTION 6**

As a consultant of Tweet Bank, you have been asked to advise on the need for an Asset and Liability Committee (ALCO).

**Required**

Present your views to the Executive Committee of Tweet Bank. **Note:** In your paper;

* define assets and liability management,
* describe the process that the committee is overlooking by not having an ALCO and
* provide your recommendation. (20 marks)

**(Total 20 marks)**

**QUESTION 7**

1. Explain **any four** factors that affect movement of a currency. *(8 marks)*
2. In 2017, the MWK has been relatively stable against the USD.

**Required**

Based on the factors that affect movement of a currency, comment on the trend that was experienced in 2017. *(12 marks)*

**(Total 20 marks)**

**QUESTION 8**

One fundamental area to look at in any investment is ‘Risk’.

**Required**

Prepare an article for the Bankers Magazine on the subject, with key focus on defining Risk and explaining the **two** major categories of risk giving examples for **each**. **(Total 20 marks)**

**END OF EXAMINATION PAPER**