

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: TREASURY MANAGEMENT 1**

**Date: Monday,13th May 2019**

**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. Briefly explain economic risk with respect to foreign exchange. *(2 marks)*
2. A local bank quotes the following exchange rates on a certain trading day;

|  |  |  |
| --- | --- | --- |
| CURRENCY PAIR | BID | OFFER |
| GBP/USD | 1.6450 | 1.6455 |
| USD/JPY | 108.75 | 108.80 |
| EUR/USD | 1.1540 | 1.1550 |
| USD/ZAR | 8.4950 | 8.5150 |
| AUD/USD | 0.7130 | 0.7135 |
| NZD/USD | 0.6010 | 0.6015 |

**Note**: The base currency is stated first in the currency quote.

* 1. At what rates will the dealer quote for GBP/ZAR trades? *(2 marks)*
  2. How many EUR can you purchase for JPY 500 million? *(3 marks)*
  3. Calculate dealer profit for a purchase and immediate sale of AUD 35 million against the NZD. *(4 marks)*

1. CHF 1.0 million is invested for 91 days at 3.0% simple interest. The investment is rolled- over for another 92 days at an agreed simple interest of 3.25%. What will be the maturity value at the end of the 183 days investment period? *(4 marks)*

NB; The days basis for CHF is 360 days in a year.

**(Total 15 marks)**

**QUESTION 2**

1. For each of the following risks, provide a brief explanation of **two** instruments/method commonly used to manage the risk.
   1. Interest Rate Risk. *(3 marks)*
   2. Liquidity Risk. *(3 marks)*
2. Provide a brief description of the mechanics behind the concept of immunization. *(3 marks)*
3. Explain the **three** key justifications put forward for the adoption of ethics in the banking industry. *(6 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. On the 1st of January 2018, Celfon Telekom Networks (CTN) Plc shares listed on one of the international stock exchanges were trading at US cents 324.65, as at close of business 31st December 2018 the shares were trading at US cents 387.52 after paying a total dividend in the year of US cents 32.42. Calculate the total return on CTN Plc for 2018. *(3 marks)*
2. CTN Plc Pension Fund places US$350,000 with a US discount house due to mature in 9 years on a compound interest basis. The interest due is subject to annual withholding tax at the rate of 20%. Determine the after tax Future Value due to CTN Plc Pension Fund if the investment earns 12% annually. *(3 marks)*
3. Explain how Central banks use Open Market Operations to control banking system liquidity. *(3 marks)*
4. Discuss the market application of the following instruments;
   1. Promissory Notes *(3 marks)*
   2. Commercial Paper *(3 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. As part of your practical interview to the position of dealer with one of the local banks, you have been provided the following opening currency balances;

|  |  |  |
| --- | --- | --- |
| Currency | Opening  Position | Today's Revaluation Rate |
| USD | 75,000 | 730.3769 |
| EUR | 38,560 | 824.4031 |
| AUD | (15,922) | 521.8658 |
| GBP | (62,544) | 934.6467 |
| NZD | 96,541 | 504.9897 |
| ZAR | (654,952) | 51.7921 |

Compute the dealer’s overall US Dollar equivalent opening position. *(4 marks)*

1. The second part of the practical interview was based on the EUR trades that the dealer conducted on the previous trading day, the raw data is as follows;

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Counterparty | Description | Amount EUR | | Exchange Rate |
|  | **Opening Balance** | **(62,413)** |  |  |
| SALES |  |  |  |  |
| Reserve Bank | Foreign Exchange Sale |  | 125,000 | 824.4031 |
| Montfort Traders Plc. | Machinery Import Bill |  | 32,500 | 836.5329 |
| Prof. Rex Munthali | Daughters University Fees |  | 5,200 | 836.5329 |
| Tuntufye Metal Furniture Ltd. | Materials Imports |  | 15,800 | 836.5329 |
| Defence Forces | Foreign troops allowances |  | 28,300 | 836.5329 |
| Infrastructure Dev. Plc | Materials Imports |  | 68,200 | 836.5329 |
| pURCHASES |  |  |  |  |
| BeBold Pharmacies Ltd. | Foreign Exchange Purchase | 78,500 |  | 812.2734 |
| Add Value Tobacco | Tobacco Proceeds | 92,500 |  | 812.2734 |
| Daily Orphan Care | FCDA Client, purchase | 73,500 |  | 824.4031 |

1. Prepare the EUR blotter clearly showing the closing balance and trading profit for the day. *(8 marks)*

Note: Assume the closing position is squared off at today’s middle rate of 824.4031

On the following trading, the EUR depreciates against all major trading currencies; determine the impact on the dealer’s opening position. *(3 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. Discuss how the following market triggers will affect the exchange rate.

i) Downward adjustment of the local interest rates. *(5 marks)*

ii) Events affecting local peace and stability. *(5 marks)*

1. A local bank has approached you to provide consultancy services and advice on Treasury trading limits. Write a paper to the bank’s Head of Treasury on the importance of limits clearly identifying **five** such limits that the bank must adopt.

*(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Explain how an export company would use a forward contract to hedge against unfavorable exchange rate movements on its EUR export proceeds. *(4 marks)*

1. Provide a brief account of the characteristics of an option contract payoff. *(4 marks)*
2. Evaluate any **three** roles of the Central Bank with respect to interbank settlement. *(12 marks)*

**(Total 20 marks)**

**QUESTION 7**

On 19-20 January 2019, the Monetary Policy Committee (MPC) met and resolved to reduce the Policy Rate from 16.0% to 14.5% while at the same time reducing the Liquidity Reserve Requirement (LRR) on local currency from 7.5% to 5.0%.

Comment on the practical implications of the two policy initiatives with respect to:

1. Banking system liquidity *(5 marks)*
2. Credit flow to the private sector *(5 marks)*
3. Demand for foreign exchange, the exchange rate and RBM gross official foreign exchange reserves *(5 marks)*
4. Economic Growth *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Discuss the Malawi financial markets with respect to level of development of the following specific markets
   * 1. Derivatives market *(5 marks)*
     2. Equity market *(5 marks)*
2. Analyze the rise and adoption of ‘e-Treasury’ and its associated risks. *(10 marks*

**(Total 20 marks)**

**END OF EXAMINATION PAPER**