

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY  
FACULTY OF COMMERCE  
DEPARTMENT OF BANKING  
BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING**

**TREASURY MANAGEMENT II - CBA 2208**

**FINAL EXAMINATION**

**AUGUST 2009**

**TIME: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES**

- The paper contains **SIX (6)** questions.
- Attempt any **FOUR (4)** questions.
- All questions carry equal marks [**25 marks**].
- Start the answer to each question on a fresh page of the answer sheet.
- Indicate on your answer booklet whether you are in the conventional or parallel programme

**INFORMATION FOR CANDIDATES**

**Questions may be written in any order, but must be legibly numbered.**

**The businesses in this question paper are intended to be fictitious.**

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**[Turn over]**

### **QUESTION 1**

- a. Explain briefly how Interest risk can be managed using the following strategies
- i. Pricing strategy **[3 marks]**
  - ii. Derivative strategy **[4 marks]**
- b. Company X wishes to borrow German marks at a fixed rate of interest. Company Y wishes to borrow Pound Sterling at a fixed rate of interest. The amounts required by the two companies are equal at the current exchange rate. The companies have been quoted the following interest rates, which have been adjusted to reflect the tax situation in the two companies.

	German Marks	Pound Sterling
Company X	9.6%	5%
Company Y	10.0%	6.5%

- i. Design a currency swap for Companies X and Y above. Clearly showing their gross and net savings if the swap dealer charges 0.250% for the transaction. Assume that the saving is shared equally **[10 marks]**
- ii. Clearly define an interest rate swap and explain its use in the financial markets **[8 marks]**

**TOTAL** **[25 MARKS]**

### **QUESTION 2**

- a. What is asset and liability management **[2 marks]**
- b. What are the key roles and responsibilities of asset and liability Management **[5 marks]**
- c. The bank Asset and Liability Management is monitored through an Asset and Liability Committee (ALCO). What are the functions of this committee and what criteria do they use to determine if a bank's exposure is adequately managed **[18 marks]**

**TOTAL** **[25 MARKS]**

### **QUESTION 3**

You have been recently appointed the risk manager of XBZ bank and as part of job description you are expected to produce a report on how you will adequately manage the risks that greatly affect the treasury department in your bank. You will be expected to present the report in the next ALCO meeting on behalf of the head of treasury. Write out the report that you are going to make giving clear details on the risk management process that will be used, its benefits and the ultimate goals of risk management in your organisation

**[25 marks]**

**TOTAL**

**[25 MARKS]**

### **QUESTION 4**

The following is the balance sheet for Woza Woza Ltd, which specialises in the manufacture of tables and chairs and other office furniture

#### **Balance Sheet for Woza Woza Limited**

<b>Assets</b>	<b>Millions</b>
Cash	20
Money Market Securities	25
Capital Market Securities	30
Variable Rate Loans	30
Short term loans	40
Debentures	40
Other assets	<u>10</u>
	<b>195</b>
<b>Liabilities</b>	
Demand deposits	5
Cheque accounts	5
Money Market Deposits	30
Short term savings	50
Long term savings	40
Reserve bank borrowing	55
Equity	<u>10</u>
	<b>195</b>

a. From the balance sheet which assets and liabilities could be classified as:

- i. Non Rate Sensitive Assets (NRSA) **[2 marks]**
- ii. Rate Sensitive Assets (RSA) **[1 ½ marks]**
- iii. Non Rate Sensitive Liabilities (NRSL) **[2 marks]**
- iv. Rate Sensitive Liabilities (RSL) **[1 ½ marks]**

- b. Using information from the balance sheet calculate the following:
- i. Dollar gap **[2 marks]**
  - ii. Relative Dollar Gap **[2 marks]**
  - iii. Interest Sensitivity Ratio **[3 marks]**
- c. Based on the calculations, comment on whether Woza Woza Ltd is asset sensitive or liability sensitive giving reasons for your answer **[5 marks]**
- d. State and explain two other repricing schedules that are used to measure interest rate risk. **[6 marks]**

**TOTAL [25 MARKS]**

**QUESTION 5**

In any financial institution losses are likely to occur due to inadequate or failed internal processes, systems, people or from external events. What are the sources of this type of risk? What measures can be put in place to eliminate or reduce the risk **[25 marks]**

**TOTAL [25 MARKS]**

**QUESTION 6**

- a. What are options? **[2marks]**
- b. What would a treasury manager in a financial institution use an option for? **[4 marks]**
- c. Draw separate clearly labelled diagrams for each of the following options strategies
- i. Buy a Put \$2 premium and \$70 strike price **[3 marks]**
  - ii. Write a call \$3 premium, \$40 strike price **[3 marks]**
- d. Assuming that the above put was for 100 ABC company shares. Calculate the net pay off if you were to exercise, when the spot price of the xyz share is \$67 **[3 marks]**
- e. Mr Right has just sold goods to a South African Company valued at R50 000. Mr Right is worried that the fluctuations in interest rates and exchange rates that have characterised the economy might greatly affect the proceeds from the export. His bank informs him that the estimated forward exchange rate in 3 months time when he

is due to receive his payment is estimated at Z\$/ZAR 7. What would you advise Mr right to do given that the spot rate in 90 days is Z\$/ZAR is 6.25  
**[6 marks]**

f. Which other instruments could Mr Right use to manage his exposure to Exchange rate risk  
**[4 marks]**

**TOTAL**

**[25 MARKS]**