

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

**TREASURY MANAGEMENT II - CBA 2208**

**SUPPLEMENTARY EXAMINATION**

**OCTOBER 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**

State and explain, giving examples where possible, 5 sources of risk. How do these affect a treasury manager's decision on a daily basis? [25 marks]

**TOTAL**

**[25 MARKS]**

### **QUESTION 2**

- a. What is Foreign exchange Risk? [2 marks]
- b. Briefly explain the following methods that are used to translate financial statements.
- i. Current/ non Current method [3 marks]
  - ii. Temporal Method [2 marks]
  - iii. Current Method [2 marks]
  - iv. Monetary / non Monetary [3 marks]
- c. State and explain 3 categories that foreign exchange risk can fall into [13 marks]

**TOTAL**

**[25 MARKS]**

### **QUESTION 3**

- a. Clearly define an Interest Rate swap and explain a bank's motivation in using swaps. [10 marks]
- b. Calculate the savings that will accrue to the companies should they decide to enter into a swap arrangement if they are faced with the following offers.

Company	Fixed Market Rates	Floating Market Rates
ABD Holdings	10%	LIBOR + 0.75
PHH Holdings	9%	LIBOR + 0.5%

In your response cover the following information:

- i. The respective comparative advantages of the two companies [3 marks]
- ii. The gross saving from the swap arrangement [7 marks]
- iii. The net saving assuming that it is shared in ratio 2:1 in favour of the most credit worthy company and after a shared bank commission of 0.15% [5 marks]

**TOTAL**

**[25 MARKS]**

#### **QUESTION 4**

- a. What is project risk and how can it be adequately managed? [6marks]
- b. State and explain three approaches that can be used to measure project risk. [6 marks]
- c. HC bank Ltd can invest \$20 000 in advertising and other related expenses to launch a new product. Demand is expected to be such that there is an even chance that the project will produce either 2000 or 20 000 in the first year. The cash flows are partially correlated over time. If demand is low in the first year, there is a 75% chance that the cash flow in the 2<sup>nd</sup> year will be \$2000 and a 25% chance that it will be \$10 000. If demand in the first year is high, there is a 35% chance that the cash flow in the 2<sup>nd</sup> year will be 15 000 and a 65% chance that the cash flow will be \$30 000. The cost of capital is 16%. Should the bank launch the product. [13 marks]

**TOTAL**

**[25 MARKS]**

#### **QUESTION 5**

- 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 6**

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]**