



BAN2602

MAY/JUNE 2017

BANKING: INTRODUCTION TO TREASURY MANAGEMENT

STUDENT NUMBER grid

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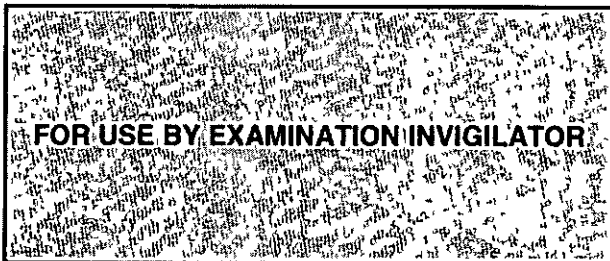


Table with columns: Question No, Marks, Examiners (1, 2, 3) and rows A, B, C, Total

BANKING Introduction to Treasury Management

Subject

Number of paper

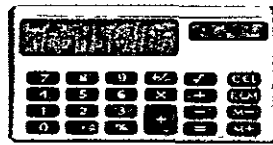
Date of examination

Examination centre

WARNING

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BAN2602

May/June 2017

BANKING · INTRODUCTION TO TREASURY MANAGEMENT

Duration 2 Hours

70 Marks

EXAMINERS

FIRST

MS R DU RANDT

SECOND

MR K DE JENGA

Use of a non-programmable pocket calculator is permissible

Closed book examination

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The paper consists of 3 sections (A,B,C).

This is a fill-in paper. Please answer all the questions in the space provided below each question.

This paper consists of 12 pages.

SECTION A
25 marks

- 1 Give a definition of Yield to Maturity (YTM) that explains why the treasury manager needs to calculate the YTM (4)

- 2 Explain the term “derivative” and discuss the capital requirements normally attached to derivatives? (4)

- 3 Define “hedging” and discuss the goals of interest rate hedging. (4)

4 Identify five (5) objectives of cash flow management and explain why cash flow analysis is so critical to banks (8)

5 The Pretoria Bank had interest income of R100 million and noninterest income of R20 million This bank also had interest expenses of R40 million and noninterest expenses of R15 million This bank has total assets of R1 billion and has equity capital totaling 10 per cent of total assets (5)

- What is this bank's net interest margin (use total assets as earning assets)?
- What is this bank's return on assets?
- What is this bank's return on equity?

SECTION B

30 marks

1 Define the money and capital markets in South Africa and explain the important role that the South African Reserve Bank plays in the money market (7)

2 A bank primarily has four sources of income/profit. Identify and briefly discuss the various sources (8)

3 Explain how the structure of the treasury department of a corporation differs from a bank's treasury (3)

- 4 A bank's treasury department consists of a front office, middle office and back office
Explain why the governance of the dealing room in the front office is important and
identify the conventional control measures (6)

- 5 Cash is the most liquid asset Banks, however, keep cash holdings as low as possible
Explain why (6)

SECTION C
15 marks

Select the correct statement and indicate the CORRECT answer to each question by writing down your choice between A,B,C and D next to the question number on the table on the last page **DO NOT use a mark-reading sheet.**

1. **The stated interest payment, in Rand, made on a bond each period is called the bond's:**
 - A Coupon
 - B Face value
 - C Maturity
 - D Yield to maturity

2. **The principal amount of a bond that is repaid at the end of the loan term is called the bond's:**
 - A Coupon
 - B Face value
 - C Maturity
 - D Yield to maturity

- 3. The rate of return required by investors in the market for owning a bond is called the:**
- A Coupon
 - B Face value
 - C Maturity
 - D Yield to maturity
- 4. The annual coupon payment of a bond divided by its market price is called the.**
- A Coupon rate
 - B Current yield
 - C Yield to maturity
 - D Bid-ask spread
- 5. The market in which previously issued securities are traded among investors is the:**
- A Dealer market
 - B Primary market
 - C Over-the-counter (OTC) market
 - D Secondary market
- 6. The two most pressing demands for liquidity from a bank come from, first, customers withdrawing their deposits and, second, from ...**
- A credit requests from those customers the bank wishes to keep
 - B cheques being cashed at local stores and directly from the bank
 - C demands for wired funds from correspondent banks
 - D legal reserve requirements set by the Reserve Bank

7. **A currency that is worth more in the forward market than in the spot market is trading at ...**
- A discount
 - B par
 - C premium
 - D strike
8. **One defence against risk for the bank is to spread out a bank's credit accounts and deposits among a wide variety of customers, including between large and small accounts and different industries and sectors. This defence is known as ...**
- A liability management
 - B gap management
 - C hedging
 - D portfolio diversification
9. **Consider the four objectives of a treasury manager listed below. Which one forms part of the liability side of the balance sheet?**
- A Maximise return on loans and securities
 - B Maximise return in the interbank market
 - C Ensure adequate liquidity
 - D Minimise the cost of deposits
10. **The effectiveness of the international monetary system can be evaluated in terms of its capacity to meet three essential criteria. Which of the following is NOT one of the criteria?**
- A Sufficient liquidity
 - B Smooth adjustments
 - C Confidence
 - D Fixed exchange rate
11. **There is a trade-off problem between liquidity and ...**
- A risk exposure
 - B safety
 - C profitability
 - D efficiency

12. **Which of the following is NOT a source of liquidity for financial institutions?**
- A Deposits
 - B Money market borrowings
 - C Sales of marketable securities
 - D Dividend payments to stockholders
13. **The ... is responsible for ensuring that transactions are concluded strictly in accordance with the bank's risk management policy and that it is in compliance with approved policies, procedures and legal requirements.**
- A front office
 - B treasury manager
 - C middle office
 - D back office
14. **The investment portfolio strategy that is often employed by smaller firms, in which most funds are placed in a short-term portfolio of higher liquid assets at one extreme and in a long-term portfolio of bonds at the other extreme is called the ...**
- A barbell strategy
 - B rate expectations approach
 - C front-end-loaded policy
 - D ladder approach
15. **The risk that a bank may suffer losses as a result of deficiencies in quality control, inefficiencies in producing and delivering of services, weather damage, aging or faulty computer systems, and errors in judgment by management is called ...**
- A process risk
 - B operational risk
 - C external risk
 - D market risk