UNIVERSITY EXAMINATIONS

UNIVERSITEITSEKSAMENS

UNISA university of south africa

BAN2602

October/November 2015

BANKING INTRODUCTION TO TREASURY MANAGEMENT

Duration 2 Hours

70 Marks

EXAMINERS
FIRST MS R DU RANDT
SECOND MR E ZINGWEVU

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

This paper consists of 9 pages.

Answer all 4 questions on the examination paper in the space provided.

Question 1
(10 marks)

Each correct answer in this section will be awarded ONE mark, and there is only one correct choice for your answer Indicate the most correct statement by selecting between A, B, C and D Do NOT use a mark-reading sheet – just write down the correct answer in the table at the end of the section

Answer the following questions by selecting the correct option between A, B, C or D

1 There is a trade-off problem between liquidity and

A. risk exposure
B safety
C profitability
D efficiency

2 An announcement by Apple Inc that its earnings are going to be negative for the year would likely cause an increase in which of the following?

A The risk free rate
B The default risk premium
C The liquidity risk premium
D The inflation risk premium

3 The Combank has Rand interest sensitive assets of R450 million and Rand interest sensitive liabilities of R280 million If interest rates rise, what is likely to happen to the net interest margin of this bank?

A Net interest margin is likely to rise
B Net interest margin is likely to fall
C. Net interest margin is likely to stay the same
D The impact on net interest margin cannot be determined from this information

4 The probability that the bank will not have sufficient cash and borrowing capacity to meet depositors' demands for cash and loan demand is referred to as

A credit risk
B liquidity risk
C capital risk
D interest rate risk

5 The probability that some of a bank's assets, especially its loans, will decline in value is referred to as

A credit risk
B liquidity risk
C operational risk
D interest rate risk

6 An investor must keep a certain amount in their account during the entire period they are holding a futures contract This is called

A the maintenance margin
B being marked to market daily
C going short
D going long

7 The change in a bank's net income that occurs due to changes in interest rates equals the overall change in market interest rates (in percentage points) times the

A volume of interest-sensitive assets
B price risk of the bank's assets
C price risk of the bank's liabilities
D size of the bank's cumulative gap

8 At the end of each day, a trader in futures contracts has any gain deposited in their account at the exchange and any loss withdrawn from their account This process is called

A the maintenance margin
B being marked to market daily
C going long
D going short

9 Which of the following gives the investor the <u>right to sell</u> a security at a set price in the future?

A A futures contract
B A put option
C A call option
D A swap contract

10 An investor wants to trade his fixed rate debt payments for variable rate debt payments Which of the following would allow him to do this?

A A futures contract
B A put option
C. A call option
D A swap contract

1	5	9
2	6	10
3	7	
4	8	

Question 2
(20 marks)

1 Suppose the ZAF Bank has assets with a duration of 6,0 years and liabilities with a duration of 3 0 years This bank has R600 million in assets and R400 million in liabilities What is the leveraged duration gap of this bank? (4)

2 A bank expects in the week about to begin R30 million in incoming deposits, R20 million in deposit withdrawals, R15 million in revenues from the sale of non-deposit services, R25 million in customer loan repayments, R5 million in sales of bank assets, R45 million in money market borrowings, R60 million in acceptable loan requests, R10 million in repayments of bank borrowings, R5 million in cash outflows to cover other operating expenses, and R10 million in dividend payments to its stockholders Calculate this bank's net liquidity position for the week (3)

3 An investor buys a Treasury Bill If the nominal value is R1 million, the current discount rate is 10% and the remaining tenor is 50 days Determine the initial amount consideration needed to invest in the bill (5)

4 Explain the ultimate goal of treasury management and provide four examples of the activities that are part of treasury management (6)

5 You bought £10 000 000 at 1,4790 against the dollar early in the day You hold the position, and revalue the position at 1,4510 Calculate your profit or a loss (2)

Question 3
(20 marks)

1 Combank has posted interest revenues of R53 million and interest costs from all its borrowings of R22 million If the bank possesses R600 million in total earning assets, calculate the net interest margin of Combank (4)

2 Define the term "life-line" banking and explain why it should particularly be promoted in South Africa What pressures does life-line banking impose on banks and other financial institutions? (4)

3 Define an option and a futures contract and explain why options and futures are termed derivatives (4)

4a) Give a definition of Yield to Maturity (YTM) that explains why the treasury manager needs to calculate the YTM (3)

4b) ZZ Corporation bonds bearing a coupon rate of 12%, pay coupons semi-annually, have 3 years remaining to maturity, and are currently priced at $940 per bond What is the yield to maturity? (2)

5 Explain the concept "available funds gap" What actions could the treasury manager take to close the gap? (3)

Question 4
(20 marks)

1a) Consider the following example of a bond

Principal	R1 000 000
Coupon rate	10% annually
Coupon payment date	30 September
Issue date	1 October 2008
Maturity date	30 September 2016

(i) Calculate the annual income on the bond
(ii) Calculate the running yield if the bond is bought at R1 080 000
(iii) Explain the relationship between the buying price of a bond and the running yield
(iv) Identify the three elements of the cash flow over the entire lifespan of the bond
(v) Explain how the YTM differ from the running yield

(10)

1b) Explain why there is an inverse relationship between bond prices and yields (4)

1c) Differentiate between zero coupon bonds and fixed interest bonds Also identify the specific advantages and risks of these bonds for investors (6)

TOTAL 70 MARKS