



# ELIZADE UNIVERSITY, ILARA-MOKIN, ONDO STATE

FACULTY: SOCIAL & MANAGEMENT SCIENCES  
DEPARTMENT: ACCOUNTING & FINANCE  
SECOND SEMESTER EXAMINATIONS 2016/2017 ACADEMIC SESSION

COURSE CODE: BFN 406

COURSE TITLE: BANK TREASURY MANAGEMENT

DURATION: 2hours

HOD's SIGNATURE

EXT. EXAMINER's SIGN

INSTRUCTION: Attempt any three (3) questions

## Question 1

- (i) List four (4) weaknesses of the repricing model
- (ii) Write a short note on
  - (a) Repricing gap / model
  - (b) Maturity gap / model
  - (c) Duration gap / model
- (iii) What is the goal of bank treasuring management?
- (iv) Explain refinancing risk and reinvestment risk.
- (v) In science, the barometer helps to show the direction of wind. In bank treasuring management, do you think the direction of interest rate risk exposure can be revealed? Robustly express your view.

(Total = 20 marks)

## Question 2

A.

- (i) ABC bank PLC has more than 1 day to 3 months rate sensitive asset (RSA) of N20 million and more than 1 day to 3 months rate sensitive liabilities (RSL) of N30 million. Required: determine the repricing gap
- (ii) What will be the change in net interest income if there is 5% increase in interest rate?
- (iii) If there is 3% decrease in interest rate, determine the change (A) in net interest income.

B.

- (i) Union savings and loans limited, a subsidiary of Union Group PLC has 3 months to 6 months N40 million RSA and more than 3 months to 6 months N25 million RSL, if there is an increase in interest rate with 2%, determine the  $\Delta$  in net interest income
- (ii) If there is a decrease in interest rate by 1.5%, determine the changes in net interest income
- (iii) The RSA of UBA Plc is N210 million while the RSL is N225 million. If the RSA rises by 1.2% and RSL rises by 1.0%, determine the change in net interest income of the financial institution
- (iv) Assuming the rate on RSL has changed to 3%, determine the  $\Delta$  in net interest income .
- (v) Assuming the rate on RSA increases to 4% and that of RSL is held constant, determine the Nii
- (vi) Assuming there is equal rise of 2% on RSA and RSL, will there be any effect on Nii?

C. First Bank PLC has quite a number of rate sensitive assets (RSAs) and rate sensitive liabilities (RSLs) of varying maturity buckets. The maturity buckets of the RSAs and RSLs are reported below:

Maturity bucket	RSAs N' million	RSLs N' million
1 day	20	30
>1 day – 3 months	30	40
> 3months – 6 months	70	85
> 6 months – 12 months	90	70
>1 year – 5 years	40	30
Over 5 years	<u>10</u>	<u>5</u>
	<b>260</b>	<b>260</b>

You are required to determine the GAP, cumulative gap (CGAP) and the risks emanating therefrom  
**Total (20 marks)**

**Question 3 A.**

TEKETEKE Bank PLC has the following balance sheet (N'million)

Assets	(N' million)	Liabilities and equity	N' million
Cash	60	Demand deposit	140
5 years Treasury note	60	1 year certificate of deposit	160
30 year mortgage	<u>200</u>	equity	<u>120</u>
Total asset	<u>320</u>		<u>320</u>

**Required:** determine the maturity gap

**B.**

(i)The current dividend of the equity of Elizade Plc is N2. The company is expected to enjoy a super normal growth rate of 25% for a period of 6 years. Thereafter the growth rate will stabilize at 15%. Equity investors in Elizade Plc require rate of return is 20%. Determine the current value of Elizade equity Plc. **(12 marks)**  
**Total 20 marks**

**Hint:**

$$P^0 = \sum_{t=1}^n D_0 \frac{(1+gs)^t}{(1+r)^t} + \frac{DN+1}{r-sn} \times \frac{1}{(1+r)^t}$$

**Question 4**

The current Dean of Social & Management Sciences, Professor Ade- Turton has requested final year students of Banking and Finance to present a seminar on any area related to financial market. The course lecturer, Mr. Sunny has therefore advised that you write and speak on the following areas and clearly make examples where necessary in order to get the set prize: i. Yield curve, ii. Normal yield curve, iii. Steep yield curve, iv. Flat yield curve, v. Humped yield curve, vi. Market segmentation theory (hypothesis), vii. Liquidity preference theory, viii. Market expectation hypothesis, ix. Preferred Habitat theory **(20 marks)**