



THE CHARTERED INSTITUTE OF BANKERS, GHANA

EXAMINER'S REPORT FOR THE BANKING OPERATIONS: REGULATION, MARKET PRACTICE, AND TREASURY MANAGEMENT-LEVEL III

APRIL 2025

1. Introduction

The April 2025 examination witnessed a sharp fall in the number of candidates who registered to write. Only 45 candidates took part in the exam as compared to 70 candidates for the October 2024 sitting.

The performance of the candidates in this sitting can best be described as above average but fell short of the performance during the immediate past sitting. The candidates did not appear to have adequately prepared for the paper as compared to the previous sitting in spite of the painstaking guidance given to them during the meet the examiner session.

Out of the 45 candidates, 24 of them passed whilst 21 failed, a sharp fall from the results of the previous sitting. This represents a pass rate of 53 percent, which is still above average. One candidate answered 3 questions instead of 4.

A summary of the overall performance of the candidates is shown in the table below:

Question	No. of candidates attempted	% of candidates attempted	Number passed	Number Failed	% Passed	% Failed
1	19	42%	6	13	32%	68%
2	40	89%	9	31	23%	77%

3	31	69%	4	27	13%	87%
4	40	89%	35	5	88%	12%
5	14	31%	9	5	64%	36%
6	35	78%	33	2	94%	6%

2. Examination questions

Question 1(a) was meant to test the candidates' understanding of the foreign exchange markets by asking them to identify and explain five (5) factors that influence the value of a country's currency. This was supposed to be a straightforward question, and I expected the well-prepared candidates to be able to answer this question with ease. The majority of the candidates who attempted this part of the question were only able to identify some of the factors but failed to explain how they affect the exchange rates.

The B part was supposed to be a low hanging fruit, as this question is often repeated in different forms in the previous sittings. The question was meant to test the candidate's understanding of the relationship between inflation, interest rates, and exchange rates by giving them the scenario of an economy experiencing high inflation and depreciating currency. Candidates were required to identify the response of the monetary policy committee and explain how the response will positively address the challenges. The majority of the candidates were unable to establish the relationships and had no clue as to how the MPC should respond. However, a few of them were able to explain how the MPC should respond by raising the policy rate which will work its way to impact inflation and the exchange rate positively, which I found impressive.

In all, out of the 19 candidates who attempted the question, only 6 of them scored 15 marks and above, whilst 13 scored below 15 out of the 30 marks allocated.

Question 2 appeared to be the most popular among the candidates (along with Q4) with 89 percent of them attempting this question. The A part of the question required candidates to identify and explain the four (4) major types of risks the treasury manages on a daily basis and their potential impact on the bank's operations. The majority of the candidates were able to identify some of the risks but failed to explain what those risks are and how they will potentially impact the bank's operations. A lot of the candidates identified market risk and also the components of market risk (Foreign exchange and

interest rate risks) as separate types of risks. In such cases, marks were awarded to only the components. Those candidates who only identified market risk without the components were given the marks.

The B part of the question, in my opinion, was expected to be an easy question owing to the fact that questions on gap analysis have appeared severally in previous diets. The question required candidates to differentiate between positive and negative gaps in gap analysis and to analyze the impact of rising interest rates on both positions. A majority of the candidates were able to explain the concepts but only a few could actually analyze how rising interest rate would impact both positive and negative positions. More interest rate sensitive assets are maturing than liabilities in a particular time bucket with a positive gap. This means more assets will be repriced at the higher interest rate than the liabilities and positively impact the net interest income of the bank. With a negative gap, more interest sensitive liabilities will be repriced at the higher interest rate than interest sensitive assets and negatively impact the net interest income of the bank.

The overall performance was very abysmal. Out of the 40 candidates who attempted the question, only 9 obtained 15 marks and above, whilst a whopping 31 obtained less than 15 out of the 30 marks allocated.

Question 3 appeared to be the most poorly answered question in the exam, which was quite surprising because this question has been examined severally in previous sittings.

The A part of the question required candidates to define and explain how a repurchase agreement works, and the B part was for candidates to identify eligible collaterals that can be used to undertake repo transaction. A large number of the candidates failed to satisfactorily explain how a repo works. which was quite shocking. However, the majority of the candidates were able to identify the eligible collaterals.

The C part of the question, which was also supposed to be an easy and straightforward question, posed a serious challenge for most of the candidates. The question required candidates to explain the concept of securitization and also explain 3 benefits companies derive from engaging in securitization. The majority of the candidates surprisingly got the concept wrong, and as a result could not correctly explain the benefits.

Securitization involves pooling assets by an institution to repackage them into interest-bearing securities. The investors that purchase the repackaged securities receive the principal and interest payments of the original assets.

The securitization process begins when an issuer designs a marketable financial instrument by merging or pooling various financial assets, such as multiple mortgages, into one group. The issuer then sells this group of repackaged assets to investors. I

expected candidates to explain the concept along these lines. The benefits derived by companies from securitization are:

Frees up the balance sheet for new business; reduces asset-liability risk; enhances liquidity; lower cost of capital; etc.

Out of the 31 candidates who attempted the question, only 4 candidates scored 15 and above, whilst 27 candidates scored less than 15 out of the 30 marks allocated, making the question the most poorly answered in the exam.

Question 4 shared the most popular question spot with Question 3 mainly because it appeared to be easier and also examined severally in previous diets. The A part of the question required candidates to explain five attributes a bank should take into considerations when selecting dealers for the treasury front office. This was a direct question, and I expected well-prepared candidates to excel. The B part was also very direct and required candidates to identify 5 functions each of the middle and back offices of the treasury. As expected, this question recorded the second-best performance in the exam. Out of the 40 candidates who attempted this question, 35 of them scored 10 and above, representing a pass rate of 88 percent, whilst only 5 candidates scored below 10 out of the 20 marks allocated.

Question 5 turned out to be the least popular question among candidates, as only 14 candidates out of the 45, representing 13% attempted it. The A part was to test candidates' understanding of the concept of net open position from the balance sheet perspective and to analyze the expectations of holders of long and short positions. I considered this very basic for candidates, but it turned out some candidates did not really understand this basic concept in treasury management. The well-prepared candidates answered satisfactorily and scored decent marks.

The B part required candidates to explain two reasons why the central bank imposes net open position limits on banks. Although a few candidates were able to identify the reasons, the majority of them had no clue at all.

The reasons the central bank imposes NOP limits on banks are as follows:

Foreign exchange risk management

NOP limits are primarily imposed to reduce the risk that banks face due to fluctuations in foreign exchange rates. Without such limits, banks could take on excessive FX risk, leading to significant losses if exchange rates move unfavorably. By capping the amount of currency exposure a bank can hold, NOP limits help ensure that any potential losses from currency movements remain within manageable levels

Protecting the bank's capital base

Large net open positions can lead to significant losses, which could erode a bank's capital base and potentially push it below the required minimum capital levels. By imposing NOP limits, the central bank ensures that banks maintain sufficient capital to absorb potential losses from FX positions.

Preventing speculative behaviour

NOP limits discourage banks from engaging in speculative trading in the foreign exchange markets. While some level of currency trading is necessary for hedging and operational purposes, excessive speculation can lead to destabilizing behaviors, both for the individual institution and the market as a whole. NOP limits help ensure that banks' FX activities are aligned with their actual business needs rather than speculative motives.

Out of the 14 candidates who attempted this question, 9 scored 10 and above whilst the rest scored below 10 out of the 20 marks allocated.

Question 6 was the second most popular question and recorded the best performance in the exam. The A part was straightforward and required candidates to discuss the benefits of the digital payment systems and to identify the products that support the system. This was supposed to be a low hanging fruit and the candidates took advantage and scored decent marks.

The B part required candidates to explain five reports likely to be submitted to the Banking Supervision Department for offsite monitoring purposes. The majority of the candidates were able to mention most of the reports whilst a few struggled. Overall, out of the 35 candidates who attempted the question, 33 of them scored 10 marks and above, representing a whopping 94% pass rate. Only 2 candidates scored below 10 marks out of the 20 marks allocated.

Concluding remarks.

The performance witnessed a sharp fall from the 75% pass rate in October 2024 to 53% for April 2025, which can still be considered decent compared to past performances. This is attributable to the realization by the candidates that the old curriculum would be phased out by October this year and do not want to be automatically moved to the new curriculum. As a result, some of them were more serious in their approach this time and put in their best efforts in this and the past sitting. At the meet-the-examiner session they were interested in knowing how to approach questions for the maximum effect. This was a complete departure from previous sessions where the interactions were minimal.

The majority of candidates, as usual, continued to bet on certain questions being asked in the exam. When these questions fail to 'land', they then resort to conjecture. It is still the

case that some candidates would score above 20 out of 30 in a particular question and score single-digit marks in other questions. This can be established from the score sheet. Their performance therefore lacks consistency across the various topic areas of the exam.

At the meet the examiner sessions, I always advise the candidates to be general practitioners of the course content first before becoming specialists in a few topic areas. This is the surest bet for at least above-average performance in the exam. If candidates had painstakingly gone through the course content, they would have been able to 'plug' all the low hanging fruits with utmost ease and the results would even have been better. Unfortunately, because some of them failed to read widely, they were unable to, and this contributed to their failure. I have repeatedly told the candidates at my sessions with them that once they commit to writing the exam, they have no other choice than to make time and study. That is the only way to pass the exam. Unfortunately, most of them don't have the time to study and yet want to pass.

I would like to recommend that lecturers for this course should engage the students more by giving them assignments based on past examination questions and strictly ensuring that the students return the assignments for marking and feedback. With this approach, students' shortcomings can be remedied in time. They will also be able to identify the students who need special attention because they lack the basics for this course and arrange for special lectures for them. I also recommend at least one mock examination for the students based on past questions under examination conditions. This approach will get them adequately prepared for future exams, which I strongly believe will lead to better students' performance in this course.

It is my hope that if lecturers and students follow this advice and recommendations, the performance in the next sitting would be better.

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