ZCAS University

MASTER OF SCIENCE

BBF 5101 INTERNATIONAL BANKING AND FINANCE

FINAL EXAMINATION

TUESDAY 4TH JUNE 2024

16:30 – 19:30 HRS

TIME ALLOWED: THREE HOURS (plus 5 minutes to read through the paper)

INSTRUCTIONS:

1. Section A: Question One in Section A is **compulsory**.
2. Sections B: Answer Two (2) questions from this section.
3. This question paper carries a total of **100 marks**.
4. Candidates must **not turn this page** until the invigilator tells them to do so.

SECTION A: Question 1 is compulsory and must be attempted

Question 1

The landscape of financial market has been changed very rapidly through last few decades. Various elements like; globalization, cross border/section merger and acquisition, growing strategic partnering among the companies, changes in regulatory environment and changes in micro/macro elements have created not only many opportunities but also many threats. All these changes have made the market much more complex and less transparent for financial institutions. The widening scope and scale, both in products and services, within the companies have forced the conglomerates to operate at the edge regulatory framework. These unprecedented changes are demanding more attention from the FIs in assessing their creditworthiness, not only on individual basis as before but also on risk modelling based on entire portfolio. To maintain and monitor the financial activities within the financial institutions there are various prudential organizations and authorities at national and international level. The main objective of such organization is to promote the awareness of matters that are relevant for safeguarding the financial stability in all levels in the financial institutions. So, the central banks determine the capital requirement that the banks are required to retain as buffer to overcome the unexpected losses. Through monitoring, supervision and creation of regulations the BIS tries to facilitate for a smooth and efficient reallocation of financial resources among the various partners. Due to these changes in financial institutions the usefulness of the credit risk management has been increased to unprecedented levels.

Required:

(a) Define the Basel Accords and discuss the main general functions of Basel Accords. **[9 Marks]**

(b) Briefly discuss the main pillars of Basel Accords I, II and III, respectively. **[15 Marks]**

(c) List and discuss the two types of capital that are measured when calculating capital adequacy ratios. **[6 Marks]**

(d) The Basel Capital Accord sets minimum capital adequacy ratios that supervisory authorities are encouraged to apply:

(i) Identify and briefly discuss two minimum capital adequacy ratios. **[4 Marks]**

(ii) There are some further standards applicable to tier two capital under the Basel Capital Accords. Identify and briefly discuss the three standards applicable. **[6 Marks]**

(e) Given the details of the balance sheet for Acacia Bank Plc below and the Risk Weightings as provided by the Central Bank of Azania, calculate the capital adequacy ratio (CAR) for Acacia Bank Plc: **[10 Marks]**

Balance Sheet:

Assets		Liabilities	
Cash	11	Deposits	182
5-year Government Bond	20	Subordinated term debt	2
Lending to Banks	30	Shareholders' funds:	
Housing loans with mortgages	52	Ordinary Capital	7
Commercial loans	64	Redeemable preference shares	3
Goodwill	3	Retained Earnings	8
Shareholding in other bank.	3	Revaluation reserve	4
Fixed Assets	25		
General provision for bad debts.	-2		
Total Assets	**206**	**Total Liabilities**	**206**

Risk Weightings:

Cash	0%
Short term claims on governments	0%
Long term claims on governments (>1 year)	10%
Claims on banks	20%
Claims on public sector entities	20%
Residential mortgages	50%
All other credit exposures	100%

(Total: 50 marks)

SECTION B: **Attempt any TWO questions in this section**

Question 2

The concept of international banks is defined as financial institutions which offer retail, wholesale and insurance services. International Banks establish branches, subsidiaries and conduct business across borders. The establishment of international Banking is contingent on a strong central bank, stable currency and growth of retail base which needed to expand domestically and international operations.

Required:

(f) Explain the different forms that international banking operations can take. **[10 marks]**

(g) Trace the development of International Banking and highlight the products that are offered by these institutions. **[10 Marks]**

(h) Identify and discuss at least three ways in which a financial institution can establish its global presence. **[5 Marks]**

(Total: 25 marks)

Question 3

According to UNCTAD's 2020 World Investment Report, FDI flows in Zambia increased from USD 408 million in 2018 to USD 753 million in 2019. In the same year, the total FDI stock was estimated at USD 19 billion. FDI remains dominated by large mining investments from Canada, Australia, United Kingdom, China and the United States, in addition to large infrastructure and other projects performed almost entirely by Chinese companies. Zambia's infrastructure, whose poor quality is a barrier to investment, should be strengthened by investments in the road network, railways and the construction of power plants. The Company, Sinohydro Corporation, should for example finalize the construction of the Kafue Gorge Lower hydroelectric power station (project valued at USD 2 billion) by the end of 2020. The megaproject to build a 2.4 GW hydroelectric power station on the Zambezi River (Batoka Gorge) was awarded in 2019 to the consortium formed by General Electric and Power Construction Corporation.

As the country largely depends on the mining sector, the government is seeking to diversify the economy and to become less dependent towards copper. To this extent, several tax incentives are granted to foreign investors (for more info, consult the Investment Guide to Zambia by the Zambia Development Agency, ZDA).

Foreign Direct Investment	2017	2018	2019
FDI Inward Flow *(million USD)*	1,108	408	753
FDI Stock *(million USD)*	19,866	20,435	19,134
Number of Greenfield Investments*	15	15	20
Value of Greenfield Investments (million USD)	2,008	1,123	625

Required:

(a) Identify and list five advantages and three disadvantages of Foreign Direct Investment. **[10marks]**

(b) Identify and briefly discuss the four (4) types of Foreign Direct Investment. **[8 marks]**

(c) Distinguish between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). Briefly elaborate the said distinction between FDI and FPI **[2 marks]**

(Total: 25 marks)

Question 4

The foreign exchange market (forex, or FX, market) is a market for the exchange of one country's currency with that of another country. Foreign exchange markets are actually made up of many different markets, because the trade between individual currencies—say, the euro and the U.S. dollar—each constitutes a market. The foreign exchange markets are the original and oldest financial markets and remain the basis upon which the rest of the financial structure exists and is traded: foreign exchange markets provide international liquidity, preferably with relative stability.

A foreign exchange market is a 24-hour over-the-counter (OTC) and dealers' market, meaning that transactions are completed between two participants via telecommunications technology. The currency markets are also further divided into spot markets which are for two-day settlements—and the forward, swap, interbank futures, and options markets. London, New York, and Tokyo dominate foreign exchange trading. The currency markets are the largest and most liquid of all the financial markets; the triennial figures from the Bank for International Settlements (BIS) put daily global turnover in the foreign exchange markets in trillions of dollars. It is sobering to consider that in the early 21st century an annual world trade's foreign exchange is traded in just less than every five days on the currency markets, although the widespread use of hedging and exchanges into and out of vehicle currencies—as a more liquid medium of exchange—means that such measures of financial activity can be exaggerated.

Required:

(a) Identify the market players in the foreign exchange market above and write short notes on each identified player explaining how each players' needs are met in this market. **[10 Marks]**

(b) Discuss the different types of foreign exchange exposure that an international customer is exposed to and identify how these exposures can be mitigated against. **[9 Marks]**

(c) Complete the table below for the US Dollar/South African Rand Forward Rates (the South African Rand as the base currency):

[6 marks]

	Dollar-South African Rand exchange rate	**Rand eurocurrency interest rate**	**Dollar eurocurrency interest rate**
Spot rate	0.60		
One-month		3.50	1.50
Three-month		4.00	1.80
Six-month		5.25	2.20

(Show all your calculations)

(Total: 25 marks)

END OF FINAL EXAMINATION