

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BANKING**

**ADVANCED INTERNATIONAL BANKING
CBA 4205**

FINAL EXAMINATION

MAY 2008

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

Answer any FOUR (4) questions.

Indicate on your answer booklet whether you are in the conventional or parallel programme.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

Questions may be written in any order, but must be legibly numbered.

The businesses in this question paper are intended to be fictitious.

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[Turn over]

QUESTION 1

- a) Discuss the key reasons that had singled out capital as a fundamental factor in the measurement of a bank's operational performance. **[3 Marks]**
- b) Below is a table which shows risk weights of borrowing entities of a bank.

Rating of Entities	Weights		
	Sovereigns	Banks	Corporates
AAA to AAA-	0%	20%	20%
AA+ to AA-	10%	25%	25%
A+ to A-	20%	50%	50%
BBB+ to BBB-	50%	50%	100%
BB+ to BB-	100%	100%	100%
B+ to B-	125%	125%	125%
Below B-	150%	150%	150%
Unrated	100%	50%	100%

Additional Information

A bank has a portfolio of loan assets comprising of government agricultural loans rated as BB+ valued at US\$4 300 000 000, corporate loans rated as AA+ valued at US\$ 2 800 000 000 and have purchased bankers acceptances (BAs) from other banks rated as AAA+ valued US\$1 200 000 000.

Required

Calculate the minimum regulatory capital required to support the bank's loan portfolio and comment on the resultant figure. **[8 Marks]**

- c) Identify and discuss any five regulatory principles that can be deduced from the general philosophy and objectives of financial regulation. **[14 Marks]**

TOTAL

[25 MARKS]

QUESTION 2

- a) Explain the concept of international purchasing power parity (PPP) and identify the assumptions under which it operates. **[13 Marks]**
- b) A Boeing 707 passenger air bus costs US\$25 400 000 000 in the US while it costs £16 850 000 000 in the United Kingdom. The current exchange rate is \$1.984/£.
- (i) Using the law of one price under the PPP, what should the exchange rate be. **[3 Marks]**

- (ii) Compare the implied PPP exchange rate and the actual exchange rate and determine which currency is overvalued and which one is undervalued. **[9 Marks]**

TOTAL [25 MARKS]

QUESTION 3

- (a) Identify and explain the fundamental objectives for the need by companies to trade in interest rate swaps. **[16 Marks]**
- (b) Evaluate the additional exposures that currency swaps traders are likely to face compared to those using interest rate swaps. **[3 Marks]**
- (c) Explain the reasons for financial institutions preferring to construct hedging portfolios using collapsible swaps as opposed to having plain vanilla swaps. **[3 Marks]**
- (d) To what extent is an indexed principal swap superior to any generally constructed swap. **[3 Marks]**

TOTAL [25 MARKS]

QUESTION 4

To what extent is arbitrage important to financial institutions and price determination of their products. **[25 Marks]**

TOTAL [25 MARKS]

QUESTION 5

Evaluate the usefulness and effectiveness of the Basel II in bank regulation as outlined under the secretariat of the Bank of International Settlement. **[25 Marks]**

TOTAL [25 MARKS]

QUESTION 6

Discuss any five core principles for effective bank supervision. **[25 Marks]**

TOTAL [25 MARKS]