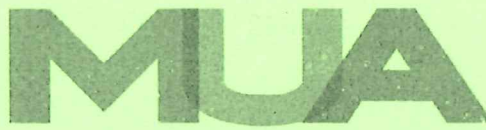


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**POST GRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**BFO 502: INTERNATIONAL BANKING**

**DATE: 18<sup>TH</sup> JULY 2017**

**DURATION: 3 HOURS**

**MAXIMUM MARKS: 60**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **FOUR (4)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **TWO** questions.
6. Question **ONE** carries **30 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

**QUESTION ONE**

Read the Case Study below carefully and answer the questions that follow:

The Ethiopian economy is based on agriculture. In 2010, the sector accounted for 43% of GDP and employed 85% of the population. Coffee is a particularly important crop – it represents 35% of all export revenues and employs more than a million smallholder farmers. Ethiopia is currently the largest producer of coffee in Africa and the fifth largest in the world. In 2010, the country's coffee exports were valued at over \$500 million. NIB is the market leader of the private banking sector in lending to agriculture. To maintain and grow this position, the Bank aims to expand its reach into rural areas and to continue to strengthen its risk management practices. In support of these goals, NIB is providing access to finance for cooperatives of smallholder coffee farmers as part of the Coffee Initiative in East Africa. The Coffee Initiative is a \$47 million program funded by the Bill and Melinda Gates Foundation and managed by the US-based non-governmental organization TechnoServe. Its goal is to increase the incomes of coffee farmers in Ethiopia, Kenya, Rwanda, and Tanzania by increasing the quality and quantity of coffee they produce. In Ethiopia, participating cooperatives range from 300 to 500 smallholder farmers who average approximately three-quarters of a hectare of land each. Nearly 40% of NIB's bank branches are outside of Addis Ababa, providing a foundation on which to reach these farmers. Beyond physical access, the Bank's inclusive business model hinges upon partnerships for financial risk-sharing and farmer capacity-building. For financial risk-sharing, NIB entered into an agreement with IFC establishing a three-year, up to \$10 million facility to provide working capital loans to cooperatives working with Techno Serve. The facility offers up to \$250,000 per cooperative, disbursed against cash flow requirements and collateralized by coffee stocks.

**Required:**

- a) Briefly discuss the following terms as used in Banking and Financial Management international banking centre, international debt crisis and country risk in international lending (10 marks)
- b) Discuss the factors contributing to the development of international banking centre (10marks)
- c) Consider the following data, reported in millions of dollars for two countries:

	Country A	Country B
Exports	1000	1400
Annual interest payment on Foreign Debt	50	60
Annual payment (principal) on Foreign Debt	200	240

Compare the two countries in terms of country risk. (10marks)

### QUESTION TWO

In View of the international debt crisis in the country risk in international lending, outline:

- i). The potential moral hazard problem created by the Brady Plan
- ii). Important international Banking Acts since 1980 (15Marks)

### QUESTION THREE

Green practices of banks popularly known as 'green banking' refers to the environment-friendly initiatives taken by the banks to reduce the carbon footprint from their day to day banking activities and also to minimize the external carbon emission. Discuss the challenges and potential of adopting green banking practices, businesses as banking Strategic decision-making. (15Marks)

### QUESTION FOUR

The financial industry in the US is the most liquid and the largest market in the world. In 2014, finance and insurance represented 7.2 percent of U.S. GDP. The banking industry in the US supports the world's largest economy with the greatest diversity in banking institutions and concentration of private credit. The banking industry has awakened to risk management, especially since the global crisis during 2007-08. But what are the day to day risks and the long term risks faced by bank Describe sources of risk in international banking (15Marks)

