

EXAMINATION

24 October 2016 (am)

Subject F206 – Banking Fellowship Applications

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

- 1. Candidates will be issued with instructions to log-in using a password (which you will be provided with at the exam center).*
- 2. Candidates are required to submit their answers in Word format only using the template provided. You MAY NOT use any other computer program (e.g. Excel) during the examination.*
- 3. Save your work continuously throughout the exam, on your computer's hard drive with which you have been provided.*
- 4. You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.*
- 5. You must not start typing your answers until instructed to do so by the invigilator/supervisor.*
- 6. Mark allocations are shown in brackets on exam papers.*
- 7. Attempt all questions, beginning your answer to each question on a new page.*
- 8. Candidates should show calculations where this is appropriate.*

Note: The Actuarial Society of South Africa will not be held responsible for loss of data where candidates have not followed instructions as set out above.

***AT THE END OF THE EXAMINATION
Save your answers on the hard drive.***

| |
|---|
| <p>In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator from the approved list.</p> |
|---|

QUESTION 1

You are the CEO of a Large South African Bank. You are considering further expansion into the African Region and are considering the neighbouring countries Namibia, Botswana, Zimbabwe and Mozambique.

- i. Outline the considerations to take into account when choosing which country to expand into?

[9]

After careful consideration the Bank decides to expand into Namibia.

- ii. Discuss the considerations in purchasing a bank as opposed to opening a brand new bank?

[9]

There are five banks with significant market share in Namibia. The target bank currently provides the following products: Transactional Accounts (Retail Current Accounts), Unsecured Loans and Business Cheque Accounts. The market share that the target Bank has within the local market (advances, profit share per product) is as provided below:

| Market Share | | |
|--------------------------|------------------------------------|---------------|
| Product | Advances / Active Customers | Profit |
| Transactional Accounts | 17% | 18% |
| Unsecured Loans | 30% | 7% |
| Business Cheque Accounts | 73% | 53% |

The bank's profits are split between the products in the following proportions:

| Product | Share of Profit after Tax |
|--------------------------|----------------------------------|
| Transactional Accounts | 30% |
| Unsecured Loans | 20% |
| Business Cheque Accounts | 50% |

- iii. Discuss advantages and disadvantages of purchasing this specific bank.

[11]

[Total 29]

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QUESTION 2

Bank XYZ intends to develop a new information technology system for card transactional payments in order to replace its current system. The IT process is a critical cornerstone of the bank's operations. You are an independent consultant and have been approached by the regulator to provide a risk assessment on the project.

- i. a) Describe how you would undertake the risk assessment.
 - b) Outline the difficulties you may encounter and explain how you may resolve them.
- [12]

Following the conclusion of the project the regulator noted an increased number of customer complaints regarding bank charges on Bank XYZ transactional products.

- ii. a) Discuss approaches to how transactional product might be priced and how the cost of the system replacement might be incorporated into the pricing. [4]
- b) With reference to the increase in customer complaints, outline the risks associated with the approaches to incorporate the system replacement costs and how these could be mitigated. [4]

[Total 20]

QUESTION 3

You are the CEO of a small South African based micro lender. The bank's funding consists of a mixture of wholesale and retail consumer deposits. The bank currently sells unsecured loans, with term of between 36 and 60 months, into both the South African and Botswana markets. Funding and exposure details are shown in the table below (roughly 50/50 split between the countries).

Balance Sheet

| | Assets (R'm) | Liabilities & Capital (R'm) |
|-----------------------------------|--------------|-----------------------------|
| Retail Loans – Prime Linked (BWP) | 3 613 | |
| Retail Loans – Prime Linked (ZAR) | 2 451 | |
| Retail Loans – Fixed (ZAR) | 1 240 | |
| RSA Bonds (ZAR) | 40 | |
| Cash (ZAR) | 35 | |
| | | |
| Wholesale deposits (BWP & ZAR) | | 3 973 |
| Retail deposits (BWP & ZAR) | | 1 576 |
| Interbank (BWP & ZAR) | | 625 |
| Equity | | 1 205 |
| Total | 7 379 | 7 379 |

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- i. Discuss the risks inherent in the balance sheet, and ways in which to mitigate these risks. [7]
- ii. Explain how the bank would manage the interest rate risk in the book. [3]

The head of sales has suggested adding a new product to the current loan offering. It is a loan with interest and fees payable monthly, and a bullet payment of the full initial capital amount due at the end of the tenure of the loan. Loan terms will be for 60 months only, the product will only be offered in South Africa at fixed interest rates to keep the client installment payable flat. He furthermore suggests that the product should be funded using 60 month fixed deposits.

- iii. Discuss the risks, benefits and other considerations associated with this suggested product in comparison to the current loan and funding products. [5]
- iv. Describe liquidity risk monitoring metrics that can be used to track and understand the liquidity risk inherent in a banking portfolio. [10]

[Total 25]

QUESTION 4

ABC bank has been operating for 30 years and is one of the largest banks in the country. The local market is dominated by 3 large banks. The CEO of ABC wants to aggressively increase market share in the next 5 years.

To assist the Board of Directors, the CEO has commissioned a report from a consultancy that explains the key considerations for formulating a strategy in light of this ambition.

- i. Discuss the points that should be made in the report with respect to:
- The expectations of different groups of stakeholders
 - Macro and micro-economic considerations
 - Capital management and funding
 - Risk appetite
- [20]

Following discussions with the Board the CEO has extended the time horizon of the growth strategy to 8 years, with the first three years focused on internal restructuring

- ii. Discuss reasons why the company might want to restructure as part of its strategy. [6]
- [Total 26]

[GRAND TOTAL 100]

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END OF EXAMINATION