

INSTITUTE OF ACTUARIES OF INDIA

EXAMINATIONS

15th November 2010

Subject SA5 – Finance

Time allowed: Three hours (9.45* - 13.00 Hrs)

Total Marks: 100

INSTRUCTIONS TO THE CANDIDATES

1. *Please read the instructions on the front page of answer booklet and instructions to examinees sent along with hall ticket carefully and follow without exception*
2. ** 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.*
3. *You must not start writing your answers in the answer sheet until instructed to do so by the supervisor*
4. *The answers are expected to be India Specific application for the syllabus and corresponding core reading. However, substantially the core reading material is still taken from material supplied by Actuarial Education Company which are meant for UK Fellowship examination. The core reading also contains some material which is India Specific, mostly the IRDA regulation. In view of this, it should be noted that focal point of answers is expected to be India Specific application. However if application specific to any other country is quoted in the answer the same should answer the question with reference to Indian environment.*
5. *Attempt all questions, beginning your answer to each question on a separate sheet.*
6. *Mark allocations are shown in brackets.*

AT THE END OF THE EXAMINATION

Please return your answer book and this question paper to the supervisor separately.

Q. 1) The Reserve Bank of India recently announced that it would allow additional banking licenses in the banking sector. You are working as a CFO of Trust Capital Ltd, which is a large NBFC operating in domestic sectors like asset management, insurance, brokerage etc. The company is among the top three players in its sector.

What are the regulatory implications of such an announcement? (5)

The CEO has asked you to prepare a note for the board with regard to the current opportunity. Outline the points you would want the board to consider before taking a decision in this regard. (8)

The decision is taken that the company would apply for a banking license as and when it opens. Prepare an action plan which the company should follow to ensure that it can file the license as soon as it opens. (5)

Your company has also received a proposal from an investment banker on an opportunity to acquire a mid-size bank in Japan.

Describe the key features of the Japanese banking sector. (7)

What factors would you consider while evaluating such a proposal? (10)

It is decided that the company would make an offer. You are in charge of the team carrying out the due diligence. Considering the limitations of time and resource, you decided to focus on limited areas of high importance. List down your focus areas. (5)

Briefly discuss the potential corporate governance issues that the organization may face during this take-over. (5)

[45]

Q. 2) The Central Bank of a small developing country in Asia has sought your advice with regard to introduction of the Basel II accord in the banking sector of that country.

Prepare a note reviewing the suitability of the accord from the perspective of that country. [15]

Q. 3) You are a finance director of an established cricket team in IPL. The promoters of the team wish to go for an IPO to finance the future expenses and to repay bank loans.

Discuss the merits of raising finance through IPO compared to debt financing. (5)

Outline the points that you would make in IPO prospectus under various sections of an IPO. (15)

[20]

- Q. 4)** Assume that investors in the Indian capital markets have access to credit derivatives.
- a) Describe the investment characteristics of the different types of credit derivatives. (10)
- b) Discuss the relative merits and demerits of using [a] Credit Default Swaps; and [b] Total Return Swaps in managing exposures to the fixed income markets with particular reference to the Indian context. (10)
- [20]**
