

2805/306

FINANCE OF INTERNATIONAL TRADE:

PAYMENTS AND SERVICES

March/April 2025

Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL

DIPLOMA IN BANKING AND FINANCE

FINANCE OF INTERNATIONAL TRADE: PAYMENT AND SERVICES

3 hours

INSTRUCTIONS TO CANDIDATES

This paper consists of SEVEN questions.

Answer any FIVE questions in the answer booklet provided.

All questions carry equal marks.

Candidates should answer the questions in English.

This paper consists of 3 printed pages.

**Candidates should check the question paper to ascertain that
all the pages are printed as indicated and that no questions are missing.**

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Turn over

1. (a) Outline five risks that banks may be exposed to with regard to nostro and vostro accounts. (10 marks)
- (b) Explain five considerations that should be made when drafting a C.I.F contract. (10 marks)
2. (a) Banks offer a wide range of cross-border guarantees to international traders. Outline four such guarantees. (8 marks)
- (b) Dawaz Limited have agreed to sell fine cut flowers to Froski PLC, Germany on open account terms. Dawaz Limited will be responsible for all costs and risks until the goods are delivered to Froski PLCs warehouse in Berlin.
- Explain how the contract should proceed under the above terms. (12 marks)
3. (a) A letter of undertaking (LOU) is an important monetary instrument in foreign trade. Outline five features of such an instrument. (10 marks)
- (b) Jabaz Limited, a company based in Kenya, has negotiated with Bazenga International Limited of Rwanda to set up a joint manufacturing venture in Kigali, Rwanda. Explain five benefits that may accrue to Jabaz Limited from such arrangement. (10 marks)
4. (a) Sifa Agencies deals in exportation of horticultural products to the Middle East. Recently, the management of the company negotiated with a Danish buyer, Dranpan Inc. for supply of goods worth USD 400 million on an irrevocable documentary credit terms. Outline six ways in which Sifa Agencies may protect its interest when contracting on the above terms. (12 marks)
- (b) Explain four factors that a firm should consider before venturing into international market. (8 marks)
5. (a) Outline five challenges faced by COMESA in achieving monetary integration. (10 marks)
- (b) Rocket Bank issued a documentary credit which calls for bills of lading. Just prior to the dispatch of goods, the exporter received a written request from the buyer to send the goods by air instead of sea. The exporter agreed to the request. The exporter has presented the airway bill to the paying bank for payment. Explain how the bank should respond to the request. (10 marks)

6. (a) Your bank customer, Techpoly Limited, deals in importation of electric motorcycle parts. *Techpoly Ltd*
The customer has contracted Xhaspo Plc. Malaysia for supply of parts to be shipped on monthly basis for the next 24 months. The payment terms are C.I.F Mombasa, confirmed irrevocable letter of credit on D/P collection terms. The Malaysian supplier is insisting on a guarantee issued by a reputable Kenyan bank before shipment.

Outline five documents that should accompany the letter of credit to safeguard the interest of the customer and the bank. (10 marks)

- (b) Outline five obligations of the seller under C.I.F terms. *Insurance* (10 marks)

7. (a) International traders employ a number of risk mitigation strategies. Outline five such strategies. (10 marks)

- (b) Outline five services banks may offer to customers travelling abroad for business. (10 marks)

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