



**THE UNIVERSITY OF THE WEST INDIES  
CAVE HILL**

**EXAMINATIONS OF APRIL/MAY 2013.**

**CODE AND NAME OF COURSE: MGMT3076 - MANAGING FINANCIAL INSTITUTIONS**

**DATE AND TIME:**

**DURATION: 2 HOURS**

**INSTRUCTIONS TO CANDIDATES: This paper has 5 pages and 6 questions.**

**Answer ALL questions in Section A, one (1) question from Section B and one (1) question from Section C**

**Section A**

**Question 1 (30 marks)**

Write brief notes to explain five of the following terms associated with financial institutions

- (i) CAMELS
- (ii) Commercial banks
- (iii) Fee based services
- (iv) CFATF
- (v) Regional Government Securities Market
- (vi) Mutual funds
- (vii) "politically exposed persons" (PEPS)
- (viii) E-banking
- (ix) Nominal interest rate
- (x) Asset Liability Management

**TURN OVER**

## Section B

*Answer one (1) question from this section.*

### Question 2 (20 marks)

- a) (i) Explain the term "collateral" as it relates to loans. (2 marks)
- (ii) Give 3 examples of assets which are acceptable as collateral. (3 marks)
- (iii) Identify 2 items which are not suitable to be used as collateral and explain why. (3 marks)
- b) Donald Burnett has recently completed a degree in Hospitality Studies at the Barbados Community College. He decided to join with his girlfriend Sylvia Arthur who graduated a few years ago from UWI, Cave Hill with a degree in Accounting to open a Vegetarian Restaurant in a busy hotel area on the south coast of Barbados. Sylvia has been working since graduation with a leading accounting firm. Donald hopes to rent a building, but he intends to buy all the equipment. It is estimated to cost \$100,000Bds. He is seeking a loan for \$90,000 as Sylvia's savings only amount to \$10,000; he has nothing to put except his expertise. Take the role of the loan officer at The Baptist Credit Union to which he has applied for a loan. Sylvia has saved her money with this credit union.

List six questions that you would ask Donald and Sylvia about the proposed restaurant in order to reach a decision about granting them the loan. Explain why each one is important. (12 marks)

### Question 3 (20 marks)

- a) What does the acronym PEARLS mean in relation to credit unions? (5 marks)
- b) Assess the performance of City of Bridgetown Credit Union as at 31 December, 2011, using five (5) of the usual benchmarks for Credit Unions set by the World Council of Credit Unions (WCCU).

**TURN OVER**

**City of Bridgetown Co-operative Credit Union Limited**

Consolidated Statement of Financial Position

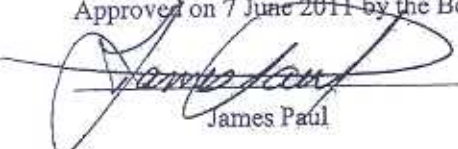
As of 31 March 2011

(expressed in Barbados dollars)

	Notes	2011	Restated 2010
<b>Assets</b>			
Cash and cash equivalents	5	\$ 10,214,359	\$ 19,027,366
Accounts receivable and prepaid expenses	9	697,472	624,212
Deferred charges		65,206	49,913
Interest due and accrued		1,127,540	1,440,523
Investments	7	23,538,346	16,553,875
Investment in associated company	6	1,552,018	1,345,797
Loans to members	8	260,898,573	244,746,209
Property, plant and equipment	10	11,883,367	12,530,224
Investment property	11	7,300,000	7,300,000
Development land for resale	12	2,895,644	2,268,890
		<u>\$320,172,525</u>	<u>\$305,887,009</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	14	\$ 1,411,339	\$ 2,482,222
Interest payable		564,107	479,060
Members' deposits	13	200,218,035	184,033,941
Loan payable	15	6,277,778	6,944,445
Liabilities qualifying as regulatory capital	16	77,125,303	79,923,535
		<u>285,596,562</u>	<u>273,863,203</u>
<b>Members' equity</b>			
Statutory reserve	17	18,386,445	16,866,530
Special funds	18	7,908,440	7,879,058
Savings and loans benefit fund	19	647,039	532,086
Fair value reserves		490,087	(201,386)
Undivided surplus		7,143,952	6,947,518
		<u>34,575,963</u>	<u>32,023,806</u>
		<u>\$ 320,172,525</u>	<u>\$ 305,887,009</u>

The accompanying notes form an integral part of these consolidated financial statements

Approved on 7 June 2011 by the Board.

  
James Paul  
President

  
Adlai Stevenson  
Secretary

TURN OVER

**City of Bridgetown Co-operative Credit Union Limited**  
 Consolidated Statement of Comprehensive Income  
 Year ended 31 March 2011  
*(expressed in Barbados dollars)*

	Notes	2011	Restated 2010
<b>Interest income (expenses)</b>			
Interest on loans		\$ 21,194,254	\$ 21,561,238
Interest expense – member deposits		(6,533,413)	(6,561,320)
Interest expense – loan payable	15	<u>(365,185)</u>	<u>(401,852)</u>
		<u>14,295,656</u>	<u>14,598,066</u>
<b>Other income</b>			
Fair value gain on investment property	11	-	5,646,275
Investment income		996,239	1,469,133
Rent		334,101	336,258
Income from direct services		963,962	1,157,061
Gain on disposal of plant and equipment		31,504	43
Commissions		<u>34,110</u>	<u>20,682</u>
		<u>2,359,916</u>	<u>8,629,452</u>
<b>Net interest and other income</b>		<u>16,655,572</u>	<u>23,227,518</u>
<b>Expenditure</b>			
Operating expenses (per schedule)		11,259,019	11,693,135
Provision for impaired loans	8	700,000	3,753,000
Savings and loan protection	19	360,000	360,000
Impairment loss on available-for-sale investment		277,778	-
Loan loss recovery expenses		31,804	1,216
Affiliation dues		<u>75,000</u>	<u>75,000</u>
<b>Total expenditure</b>		<u>12,703,601</u>	<u>15,882,351</u>
<b>Net surplus before the following items</b>		3,951,971	7,345,167
Equity share of associated company's profits	6	<u>289,978</u>	<u>330,979</u>
<b>Net surplus before distributions</b>		4,241,949	7,676,146
<b>Distributions</b>	20	<u>(1,977,090)</u>	<u>(3,243,241)</u>
<b>Net surplus</b>		2,264,859	4,432,905
<b>Other comprehensive income</b>			
Change in fair value of available-for-sale investments	7	<u>420,530</u>	<u>(249,246)</u>
<b>Total comprehensive surplus</b>		<u>\$ 2,685,389</u>	<u>\$ 4,183,659</u>

*The accompanying notes form an integral part of these consolidated financial statements*

## Section C

*Answer one (1) question from this section.*

### Question 4 (20 marks)

- a) Discuss the requirements of financial institutions to be able to be in compliance with KYC (Know Your Customer) regulations for businesses. (12 marks)
- b) Explain the risks associated with e-business from a banking perspective. (8 marks)

### Question 5 (20 marks)

- a) Discuss the issues that are taken into consideration when assessing the solvency of insurance companies. (10 marks)
- b) Explain the change in Capital Adequacy requirements for financial institutions between Basel I, II and III. (10 marks)

### Question 6 (20 marks)

"FATCA is an important landmark in establishing a common intergovernment approach to combating tax evasion" *Dr Trevor Carmichael (IBFS December 2012 Newsletter)*

Discuss the impending challenges and opportunities of the FATCA for commercial banks in the Caribbean region. (20 marks)

END OF QUESTION PAPER

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