



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

EXAMINATIONS OF APRIL/MAY 2012.

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.

Candidates are required to answer THREE (3) questions.

**ANSWER ALL QUESTIONS IN SECTION A, ONE FROM SECTION B and
ONE FROM SECTION C**

SECTION A (30 marks)

1. Write brief notes to explain five (5) the following terms associated with financial institutions:
 - a) Investment Banking
 - b) FATCO
 - c) The Fisher effect
 - d) Market risk
 - e) Defined benefit plan
 - f) Term insurance
 - g) Asset Liability Committee
 - h) Offshore Banking
 - i) Mutual funds
 - j) E - banking

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SECTION B

Answer ONE (1) question from this section.

QUESTION 2 (20 marks)

- a) Discuss three of the 5 C's of credit. **(6 marks)**
- b) Calvin Blackman has decided to purchase 6 jet skis to rent to tourists on the west coast of Barbados. The jet skis each cost \$30,000US and Calvin is able to make a down payment of \$18000 Bds through a loan from his father. The bank has advertised business loans at a special rate of 14%. Calvin has just completed a degree in Management from UWI, Cave Hill and is trying to set up himself as an entrepreneur. Take the role of the Loan Officer at the commercial bank, to which he applies for funding,
- i. List four documents that he would need to bring to the interview. **(4 marks)**
- ii. Identify five questions that you will ask him about the proposed project in order to make a decision about granting him the loan. Explain why each question is important. **(10 marks)**

QUESTION 3 (20 marks)

- a) What does the acronym CAMEL mean as it relates to commercial banks? **(5 marks)**
- b) Assess the performance of Community First Credit Union as at December 31, 2010 using five (5) of the usual benchmarks for Credit Unions set by the World Council of Credit Unions (WCCU).

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QUESTION 3 (cont'd)

COMMUNITY FIRST CO-OPERATIVE CREDIT UNION LIMITED

Statement of Financial Position

December 31, 2010
with comparative figures for 2009

(Expressed in Eastern Caribbean Dollars)

	Notes	2010	2009
Assets			
Cash and cash equivalents	4	\$ 6,041,023	6,086,713
Loans and advances - net	5	61,125,369	59,102,423
Investments	6	2,881,313	6,390,046
Other current assets	7	603,732	537,111
Property, plant and equipment	9	<u>8,550,593</u>	<u>8,900,656</u>
Total Assets		\$ <u>79,202,030</u>	<u>81,016,949</u>
Liabilities and Members' Equity			
Liabilities			
Bank overdraft	10	\$ 4,975	-
Members' deposits	11	69,424,262	68,477,572
Other liabilities	12	905,855	872,159
Long-term debt	13	<u>107,143</u>	<u>467,354</u>
Total Liabilities		<u>70,442,235</u>	<u>69,817,085</u>
Members' Equity:			
Permanent shares	14	2,826,545	2,645,390
Reserves	15	4,061,678	4,055,758
Retained earnings		<u>1,871,572</u>	<u>4,498,716</u>
Total Members' Equity		<u>8,759,795</u>	<u>11,199,864</u>
Total Liabilities and Members' Equity		\$ <u>79,202,030</u>	<u>81,016,949</u>

(15 marks)

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SECTION C

Answer ONE (1) question from this section.

QUESTION 4 (20 marks)

- a) What are the issues facing the Caribbean Financial Action Task Force (CFATF) and what are the proposed solutions. **(5 marks)**
- b) Describe five (5) ways which the banks are using the social media. **(5 marks)**
- c) What are financial institutions required to do to be in compliance of KYC (KNOW YOUR CUSTOMER) regulations as set out by the Central Bank of Barbados
 - i. Individuals
 - ii. business entities**(10 marks)**

Question 5 (20 marks)

- a) Explain why Basel III is important to the Caribbean and Latin America. How will it be implemented? **(8 marks)**
- b) How does the article "Decline of the West" by R. Viadyanathan, Professor of Finance , IIM Bangalore, explain what is happening in the financial services sector of the developed world? **(6 marks)**
- c) What are the issues facing the Caribbean Banking system in the 21st century and how are the Central Banks attempting to solve them? **(6 marks)**

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Question 6 (20 marks)

- a) Suppose the management of Third National Bank decides that it needs to expand its fee-incoming generating services. The services to be added include investment banking, the brokering of mutual funds, shares, bonds and annuities, and offering personal and commercial trust services.
- i. List the potential advantages that might come to Third National as a result of adding these services. **(3 marks)**
 - ii. What potential disadvantages might the bank encounter from selling these fee generating services? **(2 marks)**
 - iii. Are there risks to the bank from developing and offering services such as these? If so, can you think of ways to lower the bank's risk exposure from offering these new services? **(5 marks)**
- b) Discuss the statement **"The only way to make investment banking more competitive would be to gouge eyes out"**.

Robert Baldwin, Partner at Morgan Stanley , 1960s

Be sure to explain what you think he means, identify how it can happen and how it can be prevented. **(10 marks)**

END OF QUESTION PAPER