



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

EXAMINATIONS OF APRIL/MAY 2010.

CODE AND NAME OF COURSE: MGMT3076 - MANAGING FINANCIAL INSTITUTIONS

DATE AND TIME:

DURATION: 2 HOURS

INSTRUCTIONS TO CANDIDATES: This paper has 4 pages and 7 questions.

*ANSWER all questions in Section A, one from Section B
and one from Section C*

SECTION A

Question 1 (30 marks)

a) Write brief notes to explain the following banking terms:

- i) Market risk
- ii) The Fisher Effect
- iii) SWIFT
- iv) Defined Contribution Plan
- v) Virtual bank

(15 marks)

b) Explain briefly how five of these technological issues pose risks for financial institutions:

- i) Programming error
- ii) Mark to market
- iii) IT systems outage
- iv) Telecommunications failure
- v) Technology provider failure
- vi) Contingency planning

(15 marks)

TURN OVER

SECTION B
Answer one (1) question.

Question 2 (20 marks)

- a) Explain using both qualitative and quantitative characteristics how insurance companies may be valued. **(10 marks)**
- b) Peter Patterson is a Jamaican who has lived in Antigua for the past 12 years. He is a hair stylist and serves a wide cross section of the banking community—men and women. Currently, he operates from rental premises where he also lives. He has been saving with the credit union for the past 6 years or so and has \$30,000 in savings. He wants to build 6 apartments in the area near to the Medical University. He will rent four of them to students, live in one and operate his salon from the other. He has a plan which has been approved by Town & Country Planning and an estimate from a contractor for just about 1 million dollars. He already owns the land which he purchased several years ago for \$65,000. The Credit Union's Loan Policy allows for a deposit of 20% for residential mortgages.
- i) Based on the information above only, calculate how much the Credit Union should be prepared to lend him. **(4 marks)**
- ii) What additional information and collateral might he provide if he is to obtain the full amount required for the project? **(6 marks)**

Question 3 (20 marks)

- a) The following information is for Paradise Island National Bank:

	\$000
Interest income	21,000
Interest expense	14,000
Total assets	30,000
Security losses & gains	210
Earning Assets	25,000
Total Liabilities	27,000
Taxes paid	160
Shares of common stock outstanding	5,000
Non interest income	700
Non interest expense	900
Provision for loan losses	100

TURN OVER

Question 3 (cont'd)

- i) Calculate:
- Return on Equity (ROE)
 - Return on Assets (ROA)
 - Earnings per share (EPS)
 - Net interest margin
 - Net operating margin
- (5 marks)**
- ii) Suppose interest income, interest expenses, non interest income and non interest expenses each increase by 5 % while all other revenue and expense items shown remain the same, what will happen to Paradise Island's ROE, ROA and EPS? **(3 marks)**
- iii) What strengths and weakness are you able to detect in the bank's performance? **(4 marks)**
- b) What are the opportunities created for international banking through NAFTA and CAFTA? **(8 marks)**

SECTION C

Answer one (1) question.

Question 4 (20 marks)

- a) Discuss the advantages and disadvantages of offshore banking. **(10 marks)**
- b) "The Asset Liability Committee (ALCO) is essential for risk management and corporate governance". Discuss this statement, clearly indicating who should be on the Committee, the information they should be provided with and the methods used to carry out their tasks. **(10 marks)**

Question 5 (20 marks)

In light of the global financial crisis, describe in detail, what you think the financial services sector will look like in the future. Be sure to include some information on the procedures for regulation.

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Question 6 (20 marks)

Assume you are the General Manager of an indigenous bank, prepare a two page Memorandum for the Board of Directors explaining how interest rates affect all aspects of banking operations.

Question 7 (20 marks)

- a) Identify the characteristics of good pension fund management. (10 marks)
- b) Explain how electronic commerce has changed traditional financial services. (10 marks)

END OF QUESTION PAPER