



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

**EXAMINATIONS OF APRIL/MAY 2009.**

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

**DATE AND TIME:**

**DURATION: 2 HOURS**

**INSTRUCTIONS TO CANDIDATES: This paper has 3 pages and 7 questions.**

**Answer all questions in Section A, one question from section B  
and one question from Section C**

**SECTION A**

**Question 1 (30 marks)**

Write brief notes to explain the following terms:

- a) interest rate risk
- b) yield to maturity
- c) investment banking
- d) internet banking
- e) cost plus pricing
- f) line of credit
- g) collateral
- h) LIBOR
- i) Net exposure to risk
- j) Subprime market

**(3 marks each)**

**TURN OVER**

**SECTION B**

*Answer one (1) question.*

**Question 2 (20 marks)**

- a) The Third Global Bank has Gross Loans of \$250 million with an Allowance for Loan Losses account of \$15 million. Five years ago the bank made a loan for \$20 million to finance the purchase of Black Sands Beach Hotel by a group of businesses. They had repaid \$2 million when they defaulted. The Loan Committee at Third Global believe they can sell the hotel by auction for \$10 million and they want to charge off the remainder immediately.
- i) What is the dollar figure for Net Loans before the charge off?
  - ii) What are the dollar figures for Gross Loans, Allowance for Loan Losses and Net loans assuming no other transactions?
  - iii) If the Black Sands Beach Hotel sells for \$12 million, how will this affect the pertinent balance sheet accounts?
- (10 marks)**
- b) Discuss the steps which would be taken by the ALCO to ensure that the bank satisfies its liquidity requirements. **(10 marks)**

**Question 3 (20 marks)**

- a) Don Barnett is willing to help his niece with her university fees to study Medicine. He is a customer of a local bank which may be willing to lend him the money. His home is appraised at \$500,000 and the bank allows up to 80% of the appraised value as collateral. Don still owes \$350,000 on his mortgage. How much can he obtain to lend his niece? What additional information might the Loans Officer need to be able to make a final decision? **(10 marks)**
- b) Discuss the methods used to manage deposits in a financial institution taking into consideration ways of attracting the deposits and the costs. **(10 marks)**

**TURN OVER**

**SECTION C**

*Answer one (1) question.*

**Question 4 (25 marks)**

The Basel Committee on Banking Supervision produced a paper on Managing Liquidity in Banking Institutions. Discuss this topic as it relates to pension funds and security firms.

**Question 5 (25 marks)**

What do you see as the future of banking and financial services in the Caribbean? Take into consideration the mix of banking and commerce as well as the impact of the thrust on corporate governance.

**Question 6 (25 marks)**

Compare and contrast the methods of evaluating the performance of banks, credit unions and finance companies.

**Question 7 (25 marks)**

- a) "Regulation affects the management of risk." Comment.
- b) Discuss the case for and against regulation. What form of regulation do you think would work best in the Caribbean? State clearly your reasons.

**END OF QUESTION PAPER**