TRIBHUVAN UNIVERSITY

2081

B.B.S. 4 Yrs. Prog. / IV Year / MGMT

Management of Financial Institutions — Full Marks: 100

FIN 255 (New Course) — Time: 3 hrs.

Candidates are required to give their answers in their own words as far as practicable.

The figures in the margin indicate full marks.

Group "A"

Brief Answer Questions [10×2=20]

Attempt ALL questions.

1. Write about the non-depository financial institution.
2. What do you mean by required reserve and excess reserve?
3. Suppose that real risk-free rate is 3 percent, average inflation premium for five year is 7 percent. If maturity risk premium on 3-year security is 2 percent, what is the yield on 3-year securities?
4. A commercial bank has loans and advance of Rs 1,100 million, government security of Rs 200 million and cash-in-transit of Rs 50 million. What will be its risk weighted assets if the weights assigned to these assets are 100 percent, 0 percent and 20 percent, respectively?
5. What do you mean by social intermediation service of microfinance?
6. Write about any one principle of cooperatives.
7. What is property - casualty insurance?
8. The net asset value (NAV)per share of Equity Fund at the beginning of the year was Rs 300. At the end of the year, its NAV was Rs 350. At year-end, the fund paid out Rs 10 in income and capital gains. What was the return on investment in the Equity Fund during the year?
9. Write the difference between private and public pension funds.
10. How does stock broker differ from stock dealer?

Group "B"

Descriptive Answer Questions [5×10=50]

Attempt any FIVE questions.

11. Explain the concept of securities firms and investment banks with their examples in the context of Nepal. What functions do investment banks perform in securities issuing process? [4+6]
12. Assume the real risk-free rate of interest is 3 percent. The rate of inflation expected in year 1 is 4 percent, year 2 is 5 percent, year 3 is 6 percent and year 4 is 6.5 percent. There is no maturity risk premium associated to the securities with 3 years or less to maturity.
    a. What is the yield on 3-year securities?
    b. If the yield of 4-year securities is 10 percent, what is the maturity risk premium associated with 4-year securities?
    c. Why longer terms bonds are exposed to maturity risk? Explain. [4 + 4 + 2]
13. National Bank Ltd. currently has Rs 25,000 million in transaction deposits on its balance sheet. Current reserve requirement set by Nepal Rastra Bank is 4 percent. Suppose Nepal Rastra Bank decreases the reserve requirement from 4 percent to 3 percent. For simplicity suppose that National Bank Ltd. holds all of its reserve at Nepal Rastra Bank and it does not have any vault cash.
    a. How much National Bank Ltd. does hold the reserve at Nepal Rastra Bank to back up its deposits before decrease in reserve ratio?
    b. How much National Bank Ltd. does hold the reserve at Nepal Rastra Bank to back up its deposits after decrease the reserve ratio from 4 percent to 3 percent?
    c. How much National Bank Ltd. will have the excess reserve after change made by Nepal Rastra Bank in the reserve ratio?
    d. What will be the resulting change in the deposits of National Bank Ltd. after lowering the reserve ratio? [4 x 2.5]
14. How do you evaluate the performance of saving and credit cooperatives under PEARLS framework? Explain.
15. (a) Suppose a fixed-payment 7-year annuity life policy has the present value of Rs 850,000 and the annuity earns a

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guaranteed annual return of 9 percent. The payments are to begin at the end of 4 years. Calculate the annual cash flows (annuity payments) from the annuity. [5]

(b) At the beginning of a day, XYZ Funds' portfolio has a value of Rs 12.5 million and liabilities of Rs 2.5 million. Outstanding number of shares of the fund is 1 million. Assume that during a day Rs 350,000 is deposited into the funds and Rs 200,000 is withdrawn from the funds. Further assume that prices of all securities in the portfolio remain constant. What are the net asset values of the portfolio at the beginning and end of the day? [5]

16. Explain the methods for calculating retirement benefits under defined contribution and defined benefits plan.

Group "C"

Analytical Answer Questions [2×15=30]

Attempt any TWO questions.

17. Discuss about the importance of risk management for a financial institution? How can a financial institution minimize credit risk and liquidity risk? Explain. [8+7]

18. Explain the role and functions of Nepal Insurance authority (formerly known as Beema Samiti) in regulating insurance in Nepal.

19. Consider the following elements of core and supplementary capital of ABC Bank Ltd. (Rs in millions):

Paid up capital	Rs 2,400	General reserve	40
Capital redemption funds	120	Capital adjustment funds	220
Retained earnings	120	Goodwill	70
Fictitious assets	24	Cumulative preference shares	550
Subordinated term loans	600	General loan loss provision	240
Exchange equalization reserves	120	Hybrid capital instruments	260
Investment adjustment reserve	110	Asset revaluation reserve	220

Suppose the followings are the balance sheet items and off-balance sheet items, and risk weights to corresponding items of ABC Bank Ltd.

Balance sheet items	Book Value (in millions)	Risk weight (in %)
Cash balance	480	0
Government securities	1,200	0
Claims on foreign government and central bank	450	50
Claims on domestic companies	17,500	100
Staff loans and advances	150	60
Claims secured by residential properties	25,200	60
Off-balance sheet items		
L/C commitment	1500	50
Bid bond	120	50
Advance payment guarantee	550	100

a. Estimate the core capital, the supplementary capital and the total capital fund of ABC Bank?

b. What are the on-balance sheet, the off-balance sheet and total risk-weighted assets of ABC Bank?

c. What is the core capital ratio and the capital adequacy ratio of ABC Bank?

d. Calculate the minimum required capital fund if required capital is 11 percent of the total risk-weighted assets?

e. Do you think that ABC Bank has adequate capital to support its assets? [4 + 4 + 4 + 2 + 1]