

# TRIBHUVAN UNIVERSITY

2080

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

Attempt ALL questions.

[10×2=20]

1. List out the role of financial institutions in economy.
2. What are the different theories explaining the term structure of interest rates?
3. State the goal of monetary policy.
4. Differentiate between private and public pension fund.
5. How do you calculate risk weighted assets?
6. What are the key areas and activities of a security firm?
7. Write the concept of microfinance.
8. What is reinsurance and what objective does it serve?
9. Write the meaning of hedge funds.
10. Mention the principles of cooperatives.

## Group "B"

### Descriptive Answer Questions

Attempt any FIVE questions.

[5×10=50]

11. Discuss the role of saving and credit co-operatives in poverty alleviation goal of Nepal. [10]

12. What are the different types of financial institutions? Include a description of the main service offered by each of them. [5+5]

13. Suppose we observe the following rates :  $IR_1 = 8\%$ ,  $IR_2 = 10\%$ . If the unbiased expectations theory of the term structure of interest rates holds, what is the one year interest rate expected one year from now? What is the implied rate of inflation in year two if real risk-free rate is 3 percent? [6+4]

14. Sirjana Finance Company is facing the problem of liquidity. So Nepal Rastra Banks lent Rs. 20 million under repurchase agreement. The required reserve is 10 percent.

- a. What is the total demand deposit created by the injection of new reserve in the banking system?
- b. What is the money multiplier?
- c. What will be the new level of money supply if the present level is Rs. 1500 billion?
- d. What will be the interpretation of money multiplier calculated in (b)? [3+2+3+2]

15. The followings are the information extracted from profit and loss account and balance sheet of KBL and SBL. For the fiscal year 2022/23 (in millions of Rupees)

Banks	KBL	SBL
Interest income	4,210.50	3,350.45
Interest expenses	2,750.30	2,260.20
Loans, advances and bill purchased	44,260.25	35,350.35
Investments	5,450.00	26,750.20
Interest bearing deposits	42,200.61	33,350.53
Non-interest income	450.15	760.20
Non-interest expenses	860.80	735.60

- a. Calculate net interest margin ratio of KBL and SBL for the fiscal year 2022/23
- b. Calculate spread ratio of KBL and SBL for the fiscal year 2022/23



- c. Calculate overhead efficiency ratio for both KBL and SBL for the fiscal year 2022/23
- d. Calculate non-interest expenses ratio of KBL and SBL for the fiscal year 2022/23 [2.5×4]
16. Suppose that an insurance company's loss ratio is 79.8 percent, its expense ratio is 27.9 percent and the company pays 2 percent of its premiums earned to policyholders as dividends.
  - a. What is combined ratio after dividend?
  - b. If the company's investment portfolio yielded 12 percent, what is the operating ratio?
  - c. What is the overall profitability?

### Group "C"

#### Analytical Answer Questions Attempt any TWO questions.

[2×15=30]

17. How sustainability can be maintained in the micro finance institutions? Highlight the importance of microfinance in rural areas of Nepal.
18. Open end mutual fund A has 100 shares of KBL equity value at Rs. 160 each and 50 shares of NMB valued at Rs. 200 each. Closed end fund B has 75 shares at KBL and 100 shares of NBM. Each fund has 2000 shares of stock outstanding.
  - a. What are the NAVs of both funds using these prices?
  - b. Would you buy or sell shares of the fund if they are trading at Rs. 14 per share?
  - c. Assume that in one month, the price of KBL, stock increased to Rs. 165 and price of NMB stock decreased to Rs. 195, how do these changes impact the NAV a both funds? If the funds were purchased at the NAV prices in (a) and sold at month end, what would be the realized returns on the investment?
  - d. Assume that another 100 shares of KBL are added to fund A, what is the effect on fund A's NAV if the stock prices remain unchanged from the original prices.

- e. Explain why the shares of a close end fund usually have a price different from the NAV. [3+2+4+4+2]

An employee contributes 10 percent of his Rs. 75,000 salaries into the company's pension plan. The company matches 40 percent of the first 6 percent of the employee's contributions. The employee is in the 31 percent tax bracket and the plan expected to yield an 8 percent of the return.

- a) What is your terminal investment in the plan and your one year return?
- b) Assuming all variables remain constant over the next 20 years, what will your plan value contribution and employee's net of tax contribution be in 20 years (when you expect to retire)?

[10+5]