

INDEX NUMBER :.....

SIGNATURE:.....



**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI, GHANA
CSUC SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE**

END OF SECOND SEMESTER EXAMINATIONS – 2018/19 ACADEMIC YEAR

LEVEL 300

COURSE TITLE & CODE: CSBF 340: RETAIL BANKING OPERATIONS

MAY, 2019

70 MARKS

TIME ALLOWED: 3 HOURS.

GENERAL INSTRUCTIONS TO CANDIDATES:

- The paper is divided into three sections A, B and C
- Answer all the questions in Section A, TWO from Section B and TWO from Section C
- Question one in section B is compulsory
- Circle the correct answers on the objective paper
- Write your index number on top of the question paper and every page of the answer booklet used.

Examiner: Osei-Anim Reindolph

INDEX NUMBER :

SIGNATURE:

1. Consider the balance sheet for bank ABC

Assets	\$ (million)	Liabilities	\$(million)
Resumes	600	Deposits	1900
Loans	1750		

Suppose the ABC bank keeps only the required reserve given the data what is the money multiplier?

- 3.9
 - 3.2
 - 0.25
 - 0.32
2. You receive a garnishee order for a current account maintained in your branch. A cheque is received for payment. What memo should be appended while returning the cheque:
- Garnishee order received
 - Refer to drawer. Garnishee order received
 - Insufficiency of funds due to garnishee order
 - A and B
3. Current deposits fall under
- Time liability
 - Demand liability
 - Contingent liability
 - Certificate of deposit
4. In a usance bill of exchange,
- Money is payable on demand by payee
 - Money is paid after payee dies
 - Money is paid after a fixed period of time
 - The person making the BoE is the drawer
5. Retail banks are generally defined by
- The nature of their interest rate
 - Their mode of commercial lending
 - The product they offer to the public
 - Their corporate social responsibility.
6. The process of retail banking can be conceptualized into a frame work of "Value loop" rather than value chain essentially because
- The process of retail banking is a modern concept.
 - The depositors can also be borrowers
 - Resources are fueled into retail banking through only money
 - Either A or B is correct.

INDEX NUMBER :.....

SIGNATURE:.....

7. The Base rate is the most important of all interest rate in Ghana because
 - A. It is set by the government
 - B. It is the cheapest of all the rate
 - C. It is a benchmark for setting other rate,
 - D. They essentially apply to higher deposit
8. Akua is payee of cheque, who endorses it to Akosua. Akosua lost the cheque which is found by Yaw, who endorses it in favour of Adjoa for valuable consideration by way of forging Akosua's signatures. The cheque is dishonoured. Adjoa can recover from::
 - A. Akua
 - B. Akosua
 - C. Yaw
 - D. Any of the previous parties
9. Lucky bank maintains a current account of Reindolph enterprises in which the firm deposits a cheque of GH¢52,000. On careful examination, the bank finds that the words 'non-negotiable' are written on the lower part of the cheque without the parallel transverse lines. The concerned officer of the bank is not sure about whether to accept it for collection or not:
 - A. It is uncrossed instrument and two parallel transverse lines should be drawn
 - B. It is not a clear direction from the drawer due to which the cheque should not be accepted for collection
 - C. The words 'non-negotiable' can be written without parallel lines. But this will not be considered as crossing. It can be accepted for collection.
 - D. The transferability of the instrument has been affected due to these words, due to which the instrument should not be accepted.
10. "*Three months after date, pay to Afia or her order a sum of GH¢10000 for value received*". This statement was from a seller to a buyer. This instruction is a typical
 - A. Promissory note
 - B. Bill of exchange
 - C. Hypothecated instrument
 - D. Charge
11. One main difference between hypothecation and pledge is that ownership and possession lies with
 - A. The former
 - B. The later
 - C. Both of them
 - D. Either of them

INDEX NUMBER :.....

SIGNATURE:.....

12. The main difference between standing order and direct debits is that
 - A. Standing orders are originated by the customer's bank while direct debits are originated by the beneficiary
 - B. Direct debits are originated by the customer's bank while standing orders are originated by the beneficiary.
 - C. Standing orders are normally issued once in a month while direct debits are issued twice in a month.
 - D. Direct debits are interest bearing products while standing orders are non-interest bearing products
13. Find the interest rate of a cash flow whose value today is \$200 and a future value of \$630 in 5 years if the bank does semi-annual compounding
 - A. 15%
 - B. 24%
 - C. 35%
 - D. 18%
14. An attachment order of GH¢80,000 on a partnership firm is received, whose current account shows a balance of GH¢8000. The individual accounts of partners A, B and C are showing credit balance of GH¢40,000, GH¢34,000 AND GH¢2500 respectively. To meet the payment stated in the order, how much will be payable from A's account?
 - A. GH¢ 32,500
 - B. GH¢35,500
 - C. GH¢37,500
 - D. GH¢40,000
15. Losing money due to wrong strategy is
 - A. Market Risk
 - B. Credit Risk
 - C. Business Risk
 - D. Operational Risk
16. Higher interest based on age is offered in which of the following accounts?
 - A. Savings
 - B. Term
 - C. Current
 - D. CD
17. Find the interest rate of the present value is \$100 and a future value of \$115.76 in 3 years
 - A. 4%
 - B. 5%
 - C. 6%
 - D. 7%

INDEX NUMBER :.....

SIGNATURE:.....

18. All the following are example of market risks that retail banks face except
 - A. Commodity Risk
 - B. Interest rate risk
 - C. Operational risk
 - D. Currency risk
19. The lack of market ability of a bank's investment product can be described as a / an
 - A. Interest rate risk
 - B. Liquidity risk
 - C. Business risk
 - D. Market risk
20. Certificates of deposits and guaranteed investment certificates are convenient source of funding for banks because
 - A. Banks pay lower interest rate on them
 - B. Banks earn higher returns on them
 - C. These products are available to banks for a defined period of time.
 - D. Banks pay no interest rate on them
21. Aseda, a customer has a savings bank account and her husband had withdrawn the money from the bank on the basis of forged cheques at various occasions but the customer did not object to it. After his death, she comes to the bank and demands the money.
 - A. Bank would refer the matter to the court
 - B. Bank is liable on forged cheques
 - C. The bank is negligent but not liable, as customer is party to the forgery and did not inform the bank in time
 - D. Loss shall be borne in the ratio 50.:50 by the bank and the customer
22. The liquidity which banks offer their customers is a form of
 - A. Geographical transformation
 - B. Maturity transformation
 - C. Risk transformation
 - D. Asset transformation
23. The percentage of deposits which banks are mandated to give out as loans is called
 - A. Required reserve
 - B. Excess reserve
 - C. Cash reserve ratio
 - D. Liquidity reserve

INDEX NUMBER :.....

SIGNATURE:.....

24. Orchestra 'bank has produced a financial product which is highly differentiated in the financial sector. Which of the following porter's forces can be associated with this development?
- A. Power suppliers
 - B. Rivalry
 - C. Threats from new entrants
 - D. Threats from substitutes
25. Who among the following will sign the account opening form for opening a current account in case of a partnership firm where the firm has three partners and a minor, aged 17, has been admitted to the firm for benefits?
- A. All the three and the father of the minor
 - B. All the three and the natural guardian of the minor
 - C. All the three and the minor himself
 - D. All the three partners only
26. Debit cards do all the following except
- A. Are plastic cards embedded with electromagnetic identification
 - B. Are issued by banks to its customers who could use them to pay for their purchases or services at specified points of sale terminal.
 - C. Facilitate the customers to effect the transactions on their account remotely
 - D. Ensure effective and efficient branch layout to facilitate banking transactions
27. In which of the credit schemes do banks advance loans to customers on the basis of issued bonds, inventories and financial securities
- A. Demand loans
 - B. Short-term loans
 - C. Cash credit
 - D. Over-draft
28. Kofi your customer of a saving bank account is approached by a person called Kwame to give an introduction to enable him to open a saving bank account with your branch to which he agrees. Subsequently it is proved that Kofi gave introduction though he really did not know much about Kwame. In such situation:
- A. Bank can hold Kofi responsible as he carelessly gave the introduction
 - B. Bank cannot hold Kofi responsible as Kofi has not violated introduction rules.
 - C. Bank can recover 50% of amount from Kofi
 - D. Any of the above
29. Credit risk is
- A. Default of the banker to maintain cash revenue ratio
 - B. Default of the banker to issue credit card
 - C. Default of the banker to release credit to the borrower on time
 - D. Default of the customer to repay the loan

INDEX NUMBER :

SIGNATURE:

30. Codes and standards in retail banking seek to serve the following purpose except
- A. Promote good and fair banking practices
 - B. Increase in transparency in banking
 - C. Promote a fair and cordial relationship between the bank and the customer
 - D. Discourage market forces through competition to achieve higher operating standard
31. Depreciation is the reduction in the value of
- A. Asset
 - B. Capital
 - C. Current account
 - D. Viability
32. Which of the following items explain retail banking
- A. Individuals segment, mass market, business to customer approach
 - B. Wholesales clients, smaller segment , business to business approach
 - C. High ticket size, high risk, low returns, monitoring less laborious, high deposit cost
 - D. High ticket size, low risk, low returns, low deposit cost
33. Foreign Banks and Private Banks adopt which of the following business approach for their retail bank operation
- A. Departmental Approach
 - B. SBU Approach
 - C. Integrated Approach
 - D. Faculty Approach
34. A charge on immovable property is called
- A. Hypothecation
 - B. Pledge
 - C. Mortgage
 - D. Actual pledge
35. If the required reserve of bank XYZ is 30%. What is the value of the money multiplier?
- A. 0.2
 - B. 5
 - C. 3.3
 - D. 30
36. If 1 year discount is 0.909, what is the discount rate?
- A. 10%
 - B. 20%
 - C. 30%
 - D. 15%

INDEX NUMBER :.....

SIGNATURE:.....

Sarah obtained a loan of GH¢50,000 from XYZ bank at an APR of 10%. The repayment schedule for is for a period of five (5) years of equal installments. The information on the amortization process has been presented in the schedule below

Use it to answer questions 37 to 41

Year	Beginning amount	Annual installment	Interest payments	Principal payment	Remaining amount
1	50,000		5000	8190	41810
2	41810		4181	9009	32801
3	32807		3280	9910	22891
4	22891		2289	10901	Q37
5	Q38	Q39	Q40	Q41	0

37.

- A. 13190
- B. 11990
- C. 1199
- D. 32801

38.

- A. 13190
- B. 11990
- C. 1199
- D. 22891

39.

- A. 13190
- B. 11990
- C. 1199
- D. 41810

INDEX NUMBER :.....

SIGNATURE:.....

- 40.
- A. 13190
 - B. 11990
 - C. 1199
 - D. 9009
- 41.
- A. 13190
 - B. 11990
 - C. 1199
 - D. 8190
42. There is a Fixed Deposit (FD) of Ama and Kofi but Ama dies before its maturity. Kofi also dies one week after her death/. FD amount is payable to:
- A. Legal heirs of Ama
 - B. Legal heirs of Kofi
 - C. Legal heirs of Ama and Kofi
 - D. Legal heirs of the person who died later
43. Christian Service University College carries out all its financial transactions with standard chartered bank. It can therefore be said that standard chartered bank is the of the university
- A. Universal bank
 - B. Concentration bank
 - C. Retail bank
 - D. Investment bank
44. In a sweep facility
- A. Retirement plans are provided for individual customers
 - B. Interest is paid based on current interest rate in the money market
 - C. Funds are automatically managed between primary cash account and secondary investment accounts
 - D. Private banks manage the assets of high net worth individuals
45. In Retail Bank lending APR stands for
- A. Annual Percentage Ratio
 - B. Annual Percentage Retail
 - C. Annuity payment Rate
 - D. Annual Percentage Rate
46. The life blood of every bank is it's
- A. Liability
 - B. Liquidity
 - C. Customers
 - D. Retail department

INDEX NUMBER :.....

SIGNATURE:.....

47. Augmented products are products
- A. Produced through the core operations of the bank
 - B. Are developed by combining two or more products
 - C. Produced only in the retail department of banks
 - D. Are mostly investment products
48. Which of the following statements is false about hypothecation
- A. Borrower is a hypothecator
 - B. Creditor is a hypothecatee
 - C. Possession of charge is with the bank
 - D. Both ownership and possess of property is with the borrower
49. If a bank has \$200 million dollars in deposits and a reserve ratio of 15%, how much can the bank lend?
- A. \$70million
 - B. \$170million
 - C. \$200million
 - D. \$30million
50. Which of the following identifies the future value of a security of a company using financial arithmetic?
- A. $FV = PV \left(4 + \frac{r}{4}\right)^{4t}$
 - B. $FV = PV \left(1 + \frac{r}{4}\right)^t$
 - C. $FV = PV (1 + r)^{4t}$
 - D. $FV = PV \left(1 + \frac{r}{4}\right)^{4t}$

INDEX NUMBER :.....

SIGNATURE:.....

SECTION B

ANSWER TWO QUESTIONS FROM THIS SECTION. QUESTION ONE AND ANY OTHER QUESTION

QUESTION ONE (20MARKS)

Orchestra is a public trading pharmaceutical company in Ghana. The company has provided the following financial statement in its application for a loan from ABC Bank.

ASSETS	GH¢ 000	LIABILITIES/EQUITY	GH¢ 000
Cash at bank	80	Trade payables	92
Trade receivables	90	Accruals	84
Stock	205	Short term loan	107
Prepaid expense	30	Long term debt	307
Plant and equipment	345	Share capital	160
Total	750	Total	750

Foot notes	GH¢ 000
Turnover	650
Cost of sales	130
Tax	45
Interest payments	75
Net income	50
Dividend payout ratio	40%

Assume the market value of equity is equivalent to its books value

- As a credit officer of the financial institution, use Altman's linear discriminant model to ascertain the credit worthiness of Orchestra Pharmaceutical Company. **(5marks)**
- Using the answer in 'a' above, should the loan be approved for Orchestra Pharmaceuticals? Explain your answer. **(2marks)**
- State three criticisms of the Altman's linear discriminant model. **(3marks)**

INDEX NUMBER :.....

SIGNATURE:.....

- d. i. Using the *Private firm model*, deduce the *zone* in which orchestra pharmaceutical can be found. Explain your answer. (5marks)
ii. Based on the zone, does the private firm model support the conclusion of the Altman's linear discriminant model? (3marks)
iii. What general conclusions can be drawn from these two models as applied to financial management? (2marks)

QUESTION 2 (20MARKS)

- a. Suppose you have a loan of GHC 30,000 with an APR of 6% for 20 years.
i. What will be your monthly payments? (3marks)
ii. What will be the total interest paid for the entire 20-year period (3marks)
Suppose you would like to pay off the loan in 10 years instead of the 20 years,
iii. What will be your monthly payment? (2marks)
iv. What will be the total interest paid for the 10 year period (2marks)
v. Compare the total amounts you would pay over the course of the loan (2marks)
- b. Kofi Flex took a mortgage of \$500,000 from Stanbic Bank at an interest rate of 3.5% for 10 years. Calculate the Equated Monthly Installment using
i. Flat method (2marks)
ii. Reducing Balance method (3marks)
iii. Which of these two methods is convenient for the borrower? Justify your answer. (3marks)

QUESTION 3 (20MARKS)

- A. i. Kumawuman Rural Bank is selling an investment package for \$25,000. The package offers an annual cashflow of \$5120 every year for the next five (5) years at an interest rate of 650 basis points. As an investment analyst you have been hired by an investor who wants to buy such an investment package. Advise the investor on whether the package is financially prudent or not. Explain the basis for your answer. (10marks)
ii. Will your decision above still hold if the annual cashflow and interest rate for the investment are increased to \$5790 and 690 basis points respectively? Explain the basis for the change or otherwise. (5marks)

INDEX NUMBER :.....

SIGNATURE:.....

B. Atumpan Bank offers a note that pays \$1,000 in 15 months (or 456 days) for \$850. Monica has \$850 in a bank that pays a 6.76649% nominal rate, with 365 daily compounding. She plans to leave the money in the bank if she doesn't buy the note. The note is riskless. Should she buy it? Explain the basis for your answer. **(5marks)**

SECTION C

Answer two questions from this section.

1. The emergence of retail banking in recent banking operations needs a critical assessment.

Discuss the concept of retail banking under the following

1. Characteristics of retail banking **(5MARKS)**
 2. Importance of Retail banking **(5MARKS)**
 3. Challenges of retail banking **(3MARKS)**
 4. Retail banking as a business model **(4MARKS)**
 5. Reasons why retail Banking is booming in the Banking industry **(3MARKS)**
2. a Consumer Resource Mechanism exhibits certain guidelines for financial service providers. Explain the concept of Consumer Resource mechanism and discuss the major steps customers of banks would follow to lodge complaints. **(10MARKS)**
- b With the aid of a diagram explain the product life cycle and show its applicability to retail banking (10marks)
3. a. Explain the difference between financial intermediation and disintermediation **(4MARKS)**
- b With the aid of a diagram explain four ways by which lenders and borrowers interact **(8MARKS)**
- c Explain four benefits of intermediation **(8MARKS)**

INDEX NUMBER :.....

SIGNATURE:.....

4. a Retail Banking provides a lot of products that satisfy the needs of customers. Enumerate four non-interest based products and show how each increases the profitability of retail banking **(4MARKS)**
 - b State two characteristics each of the following
 - i Mortgage loan
 - ii Revolving Credit
 - iii Overdraft **(6MARKS)**
 - c State and explain five features of insurable risk. **(10MARKS)**
5. a Letters of Credit and Bank guarantee are two banking products which banks offer their customers as a sign of credit worthiness. With the aid of illustration, explain the mechanism of Letter of Credit (LC) and bank guarantee and explain how different and similar they are in respect of their operations **(15MARKS)**.
 - b. Briefly describe five delivery systems used by retail banks to channel retail products to customers **(5MARKS)**