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CHRISTIAN SERVICE UNIVERSITY COLLEGE KUMASI

CSUC SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

BACHELOR OF BUSINESS ADMINISTRATION
End of Second Semester Examination, 2019/2020 Academic Year
Level 300

CSBF 360: RETAIL BANKING OPERATIONS

JUNE, 2020 **[70 marks]**

INSTRUCTIONS TO CANDIDATES:

- **Answer TWO Questions (for 70MARKS)**
- Write your answer on the **answer sheets provided**
- **Your answer for EACH QUESTION should be FOUR (4) pages minimum.**
- ***Please present your answer in ESSAY form as much as possible unless otherwise stated.***
- Write your index number clearly at the top of every page of the answer sheets used.

Note: Marks will be awarded for:

- Introduction
- Content
- Conclusion
- Evidence of Further Reading
- Originality and Independence (Cheating would be penalized and integrity rewarded)
- Correct grammar, clarity of expression and logical presentation of facts.
- Answers to questions must be well referenced.

Examiner: NKUKPORNU ETSE

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PART A: ANSWER ALL QUESTIONS FROM THIS PART (50MARKS)

QUESTION 1A.

COVID- 19 Ltd a publicly traded manufacturing firm in XYZ region, has provided the following financial information in its application for a loan;

ASSETS	GH¢	LIABILITIES	GH¢
Cash	20	Account payables	30
Account receivables	90	Notes payables	90
Inventory	90	Accruals	30
		Long-term debt	150
Plant and Equipment	500	Equity	400
Total assets	700	Total liability and equity	700

Also assume

Sales	GH¢500
Cost of goods sold	GH¢360
Taxes	GH¢56
Interest payments	GH¢40
Net income	GH¢44
Dividend payout ratio	5%

The market value of equity is equal to the book value

i. What is the Altman discriminant function value of COVID – 19 Ltd (25marks)
ii. Should you approve COVID - 19 Ltd's application to your bank for a loan of GH¢500 capital expansion project? (5marks)

QUESTION 1B.

a) Consider a bank with the following Balance sheet

ASSETS	GH¢	LIABILITY	GH¢
Cash	20	Deposits	90
Loans	80	Equity	10
Total assets	100	Total debt/Equity	100

Suppose GH¢ 17 of the GH¢80 in loans is unlikely to be paid due to rising credit risk. What is the impact of the credit risk on the bank's equity value (5marks)

b) Explain the following terms;

i. Arrival risk (3marks)
ii. Timing risk (3marks)
iii. Recovery risk (3marks)
iv. Default dependency risk (3marks)
v. Credit risk on the part of the financial institutions (3marks)

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PART B: ANSWER ONE (1) QUESTION FROM THIS PART

QUESTION 2.

a) Monitoring and control of lending activities are essential particularly because banks are subject to the problem of moral hazard (Carlettie etal. 2007).

As a retail Banker, state any four reasons credit facilities need to be monitored (8marks)

b) Explain the following terms;

i. Bridging loans (4marks)
ii. Open ended bridging loans (4marks)
iii. Closed ended bridging loans (4marks)

QUESTION 3.

Explain the four (4) major risk faced by banks;

a) Credit risk (5marks)
b) Operational risk (5marks)
c) Market risk (5marks)
d) Liquidity risk (5marks)

QUESTION 4.

a) A financial firm is said to be “liquid”. Explain (5marks)

b) Explain the three characteristics of liquid assets (6marks)

c) Explain two (2) reasons that accounts for why financial firms face significant liquidity problems (9marks)