



**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI**

CSUC SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

BACHELOR OF BUSINESS ADMINISTRATION

End of Second Semester Examination, 2021/2022 Academic Year

Level 300

CSBF 340: RETAIL BANKING OPERATIONS

MAY, 2022

TIME: 2HOURS

[70 marks]

Examiner: ETSE NKUKPORNU

PART A:

ANSWER ALL QUESTIONS FROM THIS PART (30 MARKS)

QUESTION 1.

A). Explain the following four (4) major risks faced by banks;

- i. Credit risk (3 marks)
- ii. Operational risk (3 marks)
- iii. Market risk (3 marks)
- iv. Liquidity risk (3 marks)

B).

- i. A financial firm is said to be “liquid”. Briefly explain this statement. (3 marks)
- ii. Explain the three characteristics of liquid assets (6 marks)
- iii. Explain two (2) reasons that accounts for why financial firms face significant liquidity problems (4 marks)

C) Explain the following terms as applied to lending;

- i. Adverse selection (2.5 marks)
- ii. Moral hazard (2.5 marks)

PART B:

ANSWER ANY TWO (2) QUESTIONS FROM THIS PART (20 MARKS EACH)

QUESTION 2.

A). Using the Altman’s linear discriminant model,

Suppose that the financial ratio of a potential borrowing firm take the following values:

$$X_1 = 0.2, \quad X_2 = 0, \quad X_3 = -0.20, \quad X_4 = 0.10, \quad X_5 = 2.0$$

- i. State and interpret the ratios, X_1 , X_2 , X_3 , X_4 , X_5 . (10 marks)
- ii. Determine the Altman’s Z – value and comment on your answer. (5 marks)
- iii. State any two problems associated with the Altman’s model (5 marks)

QUESTION 3.

- i. Explain five technical abnormalities on a cheque that could cause a retail banks to dishonour its customers. (10 marks)
- ii. Discuss the assumptions of credit creation. (10 marks)

QUESTION 4.

a) Explain the following benefits of intermediation

- i. Maturity transformation (4 marks)
- ii. Asset transformation (4 marks)
- iii. Risk transformation (4 marks)
- iv. Geographical location (4 marks)

b) State any four ways in which lenders and borrowers interact (4 marks)