

Tribhuvan University

2081

B.B.S. (4 Yrs.) / III Year / MGMT

Foundation of Financial Systems

MGT- 226 (New Course)

Full Marks: 100

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 the meaning of financial system.
2. ✓ What do you mean by capital market?
3. ✓ What are the components of bank equity capital?
4. ✓ State the concept of non-depository institutions.
5. ✓ How do you compute NEPSE index.
6. Write the meaning of initial public offerings.
7. ✓ XYZ mutual fund has 500,000 shares outstanding, and its assets consist of common stock with an aggregate market value of Rs 6,800,000 and liabilities of Rs 300,000 as of Asar 31, 2081. What is the NAV per share of the fund? $\frac{6,800,000 - 300,000}{500,000}$
8. ✓ A bank has profit margin ratio of 12 percent and asset utilization ratio of 0.6 times. What is its return on assets? $12\% \times 0.6 = 7.2\%$
9. ✓ A T-bill with face value Rs 10,000 and 180 days to maturity is selling at Rs 9,750. Calculate annual yield on the T-bill. $\frac{10,000 - 9,750}{9,750} \times \frac{360}{180} = 5.05\%$
10. ✓ Bank ABC has a gap ratio of 18 percent, while that of Bank XYZ is 24 percent. Which bank is more interest rate sensitive?

Group "B"

Descriptive Answer Questions
Attempt FIVE questions.

[5×10=50]

11. Explain the major functions, duties and power of Nepal Rastra Bank as the monetary authority.
12. Describe the meaning and functions of secondary markets. [4+6]
13. Green Food Limited has grown rapidly during the past five years. Recently, company has discovered some good investment opportunity. It plans to raise an additional Rs 2,000,000 through rights offerings. Current market price of the stock is Rs 200. But subscription price is set at Rs 100 which is equal to its par value. Company has 80,000 shares outstanding.
- How many new shares of common stock the company must issue to raise required amount of funds?
 - What are the number of rights required to purchase one new share?
 - Calculate theoretical value of each right.
 - Calculate theoretical value of a share when stock goes ex-right.
 - Calculate theoretical value of a right when the stock sells ex-rights and the actual market price goes to Rs 185 per share
- [5× 2]
14. Himalayan Bank Limited (HBL) has Rs 500 million in the reserve for loan loss account on its balance sheet. The bank management has decided that the minimum adequate reserve is Rs 475 million. Assume that Rs 50 million of loans are uncollectible and bank management charges off these loans.
- How much the bank management should increase the accrued expenses item, provision for loan losses to replenish the reserve?
 - Suppose that the bank management charges off Rs 100 million and recovers Rs 50 million. What will be the amount of net charge-off?
 - What will be the provision for loan losses for the current year if bank maintains the minimum adequate reserve for loan losses assuming that amount of gross charge-off is Rs 100 million and recovery amount is Rs 50 million?

P.T.O.

d. What will be the reserves for loan losses?

[4 × 2.5]

15. Consider the following stock quote for Nabil Bank Limited derived from NEPSE trading as on July 31, 2024.

Symbol	Open	High	Low	Close	Vol.	Prev. Close	Turnover	Diff%	52 Weeks	
									High	Low
NABIL	596	630	590	635	123,432	590	37214250	+7.62	775	495

- What do 'Open', 'High' and 'Low' mean?
- At what price did the stock close on the trading day?
- What were the maximum and the minimum trading prices of NABIL stock on the day of quotation?
- How many shares of NABIL stock were traded on the day?
- What is total value of shares traded on the day?
- Did the stock price increase or decrease on the day of quotation as compared to previous day?
- What does 'diff%' mean?
- How do you explain '52 weeks High-Low' quote? [8 × 1.25]

16. Write short notes on (Any TWO):

- Ancillary services
- Securities Board of Nepal
- Credit rating

Group "C"

Analytical Answer Questions

[2 × 15 = 30]

Attempt any TWO questions.

17. Describe the components of financial system? Explain the current status of financial institutions in Nepal. [9 + 6]

18. Summary of current account for the first nine months of the fiscal year 2023/24 published by Nepal Rastra Bank is as follows:

(3/5)

Summary of Current Account (Rs. in million)

Particulars	Credit	Debit
Goods and services	Rs 440,000	Rs 2,800,000
Goods	305,000	2,500,000
Services	135,000	300,000
Primary income	65,500	31,250
Secondary income	1,410,000	9,675

Based on the information contained in the summary of current account, you are required to answer the following questions:

- a. What do you mean by balance of payment and balance of trade?
 - b. What is the net of goods and services account during the given period of fiscal years?
 - c. What is the net of primary income account and secondary income account during the given period of fiscal year?
 - d. Which accounts have contributed to increase the current account deficit? Explain. $\{1-5\}$
 - e. Which accounts have contributed to decrease the current account deficit? Explain.
 - f. What is the trade deficit or surplus during the first nine months of given fiscal year? What does it mean? $[6 \times 2.5]$
19. Assume that the real risk-free rate of interest is currently 2 percent. Inflation is expected to be 5 percent this year, 6 percent in the second year and 7 percent in the third year and thereafter. Assume that the maturity risk premium up to three-year maturity is zero.
- a. What is the yield on 2-year Treasury securities?
 - b. What is the yield on 3-year Treasury securities?
 - c. If the maturity risk premium on 4-year securities is 0.75 percent, what is the yield on 4-year Treasury securities?
 - d. What are the possible reasons that yields on long-term securities are usually larger than those of short-term securities?
 - e. Briefly explain the determinants of interest rates. $[5 \times 3]$

Tribhuvan University

2080

B.B.S. (4 Yrs.) / III Year / MGMT

(MGT- 226, New Course)

Foundation of Financial Systems

Full Marks: 100

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. What is financial intermediation? Give some example of financial intermediaries in Nepal.
2. What do you mean by capital market?
3. Write the meaning of ancillary financial services.
4. State the major roles of risk management industry.
5. Write the meaning of credit rating agencies.
6. What do you mean by foreign direct investment?
7. What is the profit margin of a bank given that its asset utilization ratio is 1.45 and return on asset is 14.5%?
8. A T-bill with face value Rs. 10,000 and 180 days to maturity is selling at Rs. 9,700, what will be annual yield on T-bill?
9. Gap ratio of Bank A and Bank B are 25 and 30 percent respectively. Which bank is more interest rate sensitive?
10. The Mega Fund, a closed -end fund, has a portfolio of assets worth Rs. 220 million. It has liabilities of Rs. 10 million. It also has 20 million shares outstanding. What is the fund's NAV? If the fund trades at 2 percent discount from its NAV, what is the market price of the fund's shares?

Group "B"

Descriptive Answer Questions
Attempt FIVE questions.

[5×10=50]

11. What do you mean by a security dealer? How does securities dealer differ from securities broker? [4+6]
12. Explain the need for regulation of depository financial institution by NRB.
13. Himal Cement Company plans to raise an additional Rs. 50 million through rights offerings. Current market price per share of the bank is Rs. 220. Stockholders are offered a new share at a price of Rs. 100 each for two shares held.
- a. Calculate the theoretical value of a rights.
b. Calculate ex-right price.
c. What are the advantages of rights offering? [4+3+3]
14. Assume that it is now January 1, 2022. The rate of inflation is expected to be 5 percent throughout 2022. Investors expect the inflation rate to be 6 percent in 2023, 7 percent in 2024, and 8 percent in 2025. The real risk-free rate currently is 3 percent. Assume that no maturity risk premium is required on bonds with 5 years or less to maturity. The current interest rate on 5-year T-bonds is 10 percent.
- a. What is the average expected inflation rate over the next 4 years?
b. What should be the prevailing interest rate on 4 - year T- bonds?
c. What is the implied expected inflation rate in 2026, or year 5, given that bonds, which mature in that year, yield 10 percent?
15. Consider the following summary of BOP for the fiscal year 2021/022 published by Nepal Rastra Bank. (Rs. in million)

Particulars	Credit	Debit
Goods	352,154	1,369,317
Services	108,111	350,229
Primary income	62,395	17,548
Secondary income	829,238	9,735

- a. What is the net of goods and services account during the fiscal year 2021/022?

- b. What is the net of primary income account and secondary income account during the fiscal year?
- c. What is the trade deficit/surplus during the fiscal year? [2.5+2.5+3]

16. Write short notes on (Any TWO):
- Citizen Investment Trust (CIT)
 - Insurance board
 - Pension fund

Group "C"

Analytical Answer Questions
Attempt any TWO questions.

[2×15=30]

17. Explain the concept of financial system. What are the major components of Nepalese financial system? Discuss. [6+9]
18. Following is the market information for the securities of three companies:

Year	Market price in Rs.			Number Shares outstanding		
	Alpha	Beta	Delta	Alpha	Beta	Delta
2020	120	200	160	1,000	3,000	2,000
2021	130	190	180	1,000	3,000	2,000
2022	70	210	190	2,000	3,000	2,000

No new listing has been incorporated in the stock market since base period. But there has been 2 for 1 stock split in Alpha stock at the beginning of 2022.

- Determine value weighted index for as used by NEPSE for the year 2021 and 2022. Assume base value of index is 100.
- Why do you think the value weighted index like NEPSE index is not affected by stock split?
- What are the uses of market index? [10+2.5+2.5]

19/ The following are the information extracted from financial statements of City Bank and Metro Bank for the fiscal year 2078/79 (in Million Rs)

	City Bank	Metro Bank
Total assets	Rs. 29,000	Rs. 38,000
Non-interest income	350	650
Interest income	4,000	4,500
Interest expenses	2,100	2,900
Loans, advances and bill purchased	21,000	27,000
Investments	5,000	8,000
Interest bearing deposits	24,000	26,000
Debenture and bond	500	600

- Calculate non-interest income ratio of both banks for the fiscal year 2078/79
- Calculate net interest margin ratio of both banks for the fiscal year 2078/79
- Calculate spread ratio of both banks for the fiscal year 2078/79
- How do you evaluate both bank's performance on the basis of calculated ratios? [4+4+4+3]

□

(4)