Victoria University

of Bangladesh

Assessment Topic:

Mid Assessment

Course Title: Financial Institutions

Course Code: FIN-439

Submitted To:

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Answer to the question no-1

Ans:- Definition of Financial Institutions:- A financial institution is an institution that provides financial services for its clients or members. Any institution that collects money and puts it into assets such as stocks, bonds, bank deposits, loan is considered a financial institutions.

There are two types of financial institutions

① Depository institutions.

② Non-depository institutions.

* Depository institutions:- ~~Pay~~ Depository institutions pay you interest on your deposits and use the deposits to make loans. Such as —

i. Banks

ii. Credit Unions.

iii. Trust Companies.

iv. Mortgage loan Companies.

* Non depository institutions:- Non depository institutions on the other hand undertake the function of selling financial products. In other words, those government or private that serve as an intermediary between savers and borrowers but do not accept time

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deposits, are known as non-depository institutions. Such institutions fund their lending activities either by selling securities or insurance policies to the public. Their liabilities may fall under one or more money supply definitions or may be classified as near money. Such as —

i. Insurance Companies.

ii. Pension funds.

iii. Brokerage firms.

iiii. Underwriting firms.

iv. Mutual fund Companies.

v. Investment trust.

Many financial institutions provide both depository and non-depository services.

Probably the most important financial service provided by financial institutions a acting as financial intermediaries. Most financial institutions are highly regulated by governments bodies.

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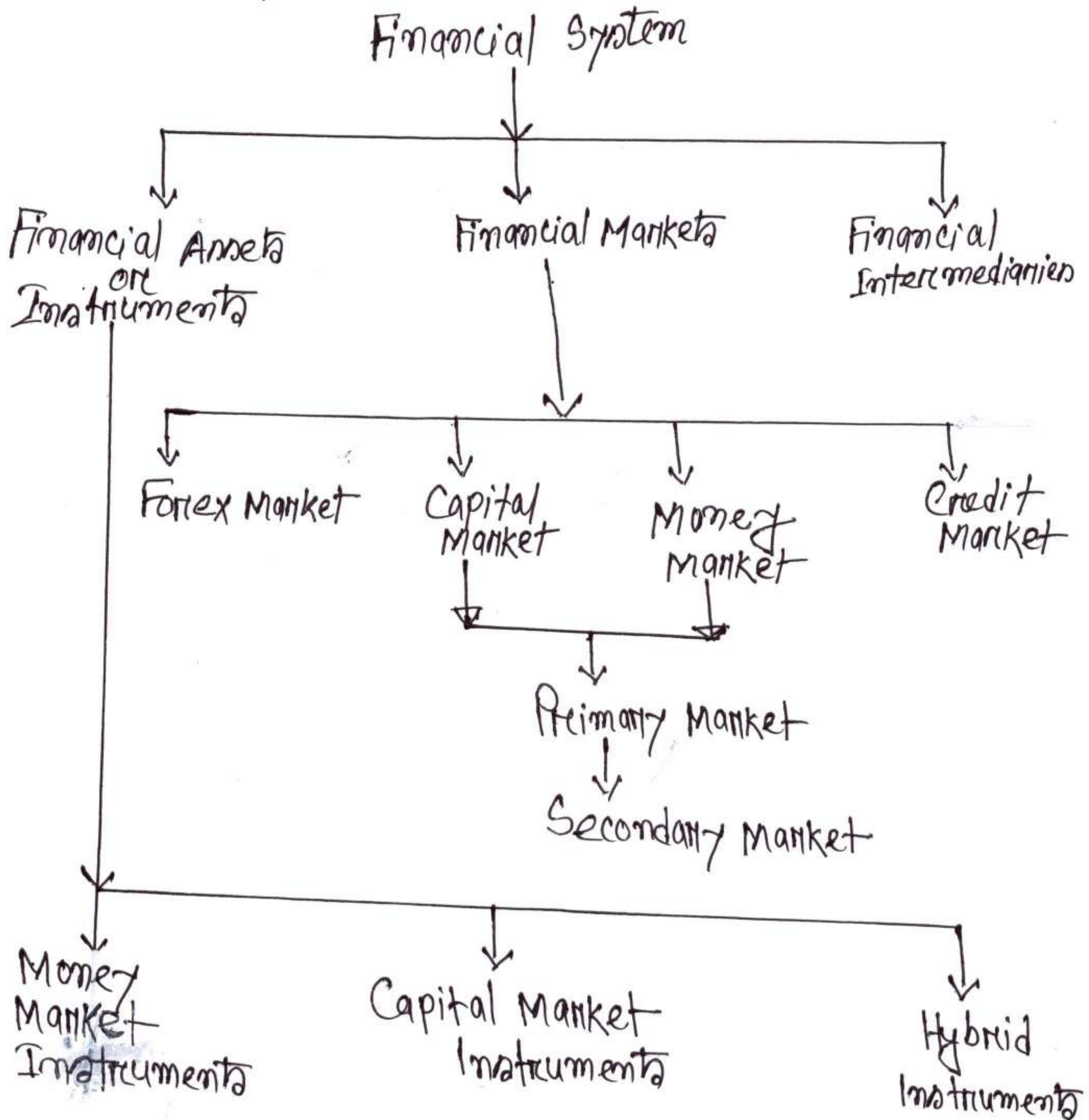
* Components of Financial System:- Components of financial system there are bellow -



The financial system consists of the Central Bank as the Apex financial institution other regulatory authorities financial institutions, markets, instruments, a payment

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and settlement, a large framework and regulations.
The financial system carries out the vital financial intermediation function of borrowing from surplus units and leanding to deficit units. The legal framework and regulators are needed to monitor and regulate the financial system. The payment and settlement system is the mechanism through which transactions in the financial system are cleared and settled.

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Answer to the question no-4

Ans:- Derivatives:- A derivatives is a contract between two parties which derives its value or price from an underlying asset. The most common types of derivaties are futures, options forwards and swaps. It is a financial instrument which derives its value or price from the underlying assets. Originally underling corpus is first created which can consist of one security or a combination of different securities. The value of the underlying asset is bound to change as the value of the underlying assets keep changing continuously. Generally stocks, bond, currency, commodities and interest rates form the underlying assets.

* Commercial papers:- Commercial papers are short term, non-collateralised debt securities issued by private sector companies to raise funds for their own use, by banks and others financial intermediaries. Commercial papers are generally issued by creditworthy institutions in large ~~denomina~~ denominations and have additional bank

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guaranteo of payment. Commercial papers are usually sold at a discount, although some are interest bearing.

* **Treasury Bills:-** Treasury bills are short term borrowing instruments of the union government. It is an IOU of the Government. It is a promise by the government to pay a stated sum after expiry of the stated period from the date of issue. They are issued at a discount to the face value and on maturity the face value is paid to the holder. The rates of discount and the corresponding issue price and determined at each auction.

* **Bonds:-** Bonds are issued by governments and Corporations when they want to raise money. By buying a bond youre giving the issuer a loan and they agree to pay you back the face value of the loan on a specific date and to pay you periodic interest payments along the way usually twice a year.

unlike stocks, bonds issued by Companies give you no ownership rights. So you dont necessarily benefit from the company's growth but you wont see as much

impact when the company isn't doing as well either - as long as it still has the resources to stay current on its loans.

Bonds then give you two potential benefits when you hold them as part of your ~~pro~~ portfolio. They give you a stream of income and they offset some of the volatility you might see from owning stocks.

* Primary Market:- The primary markets is also called the new issue market. The securities which are introduced in the market are sold for first time to the general public in this markets. This market is also known as the long term debt markets as the fund raised from this market provides long term capital.

The act of selling new issues in the primary capital market follows a particular process. This process requires the involvement of a syndicate of the securities dealers. The dealers who are running to process get a certain amount for a commission. The price of the security offered in the primary capital market includes the dealer, commission also. These primary issues are used by the companies for the purpose of setting new business. at the same time the funds collected through the primary market are also used for the modernization of the business. The primary market is also involved in the process of creating capital for the respective economy.

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