

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
COMMERCE

BCOM 432: MANAGEMENT OF FINANCIAL INSTITUTIONS

STREAMS: BCOM Y4S1 (ODEL)

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 06/10/2021

2.30 P.M. – 04.30 P.M.

INSTRUCTIONS

- Answer question One and any other two

Question one

- Explain the special services that are provided by financial institutions and intermediaries. (10 marks)
- Describe the main objectives of coming up with rules and regulations directing the conduct of financial institution. (10 marks)
- In provision of their services insurance companies are faced with different types of challenges that could result to their failure. Discuss any 4 of these challenges. (10 marks)

Question two

- Explain the 3 main types of institutions that are legally allowed to accept monetary deposits from consumers. (6 marks)
- Consider a simple financial institution balance sheet as shown below before withdrawal

Assets	Sh 'M'	Liabilities and Equity	Sh. 'M'
Cash	20	Deposits	75
Non liquid Asset	80	Equity	25
	<u>100</u>		<u>100</u>

Suppose the depositors unexpectedly demand to withdraw sh 10 million, perhaps due to release of negative news about profits of the financial institutions and the financial institution receives no new deposit to replace the withdrawal. Show the effect of this withdrawal on the balance sheet. (2 marks)

c) Explain the possible solutions to liquidity risk that can be implemented by an organization. (4 marks)

d) Discuss the main reasons for regulation of financial institutions and markets. (8 marks)

Question three

a) Describe the various types of agency functions carried out by commercial banks. (8 marks)

b) Highlight the role of the capital market authority in Kenya. (8 marks)

c) Assume the book value of a certain bank is as follows;

Assets	Book Value in Millions
Government treasury bills	300
Bonds	250
Mortgages	650
Commercial Loans	800
	<u>2000</u>

You are given credit classification as follows 0%, 30%, 60% and 100%. Assuming the tier I capital requirements is 6% of the book value of assets and the minimum total capital (tier 1 and tier 2) is 12% of the risk weighted asset.

Require, calculate;

i. Minimum core capital (2 marks)

ii. Supplementary capital (2 marks)

Question four

- a) Describe any 6 benefits associated with a financial industry or market formulating their own rules and regulations for operations. (12 marks)
- b) Consider a financial institution with the following balance sheet

Assets	Sh 'M'	Equity and liabilities	Sh 'M'
Cash	100	Deposit	150
Gross Loans	100	Equity	50
	<u>200</u>		<u>200</u>

Suppose that the manager of this financial institution releases that loan amount of sh. 15 million is unlikely to be repaid due to an increase in credit payment difficulties of its borrowers. Show the effect on the balance sheet. (2 marks)

- c) Advise the manager on any 3 credit selection strategies to follow in order to avoid future defaults. (6 marks)
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