

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EMBU CAMPUS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE
BCOM 432: MANAGEMENT OF FINANCIAL INSTITUTIONS**

STREAMS: Y4S1

TIME: 2 HOURS

DAY/DATE: THURSDAY 08/07/2021

11.30 A.M – 1.30 P.M

INSTRUCTIONS:

Answer question one and any other two

QUESTION ONE

- (a) Explain the following monetary regulations tools used by financial institutions.
- (i) Cash reserve ratio [2 marks]
 - (ii) Moral –suation [2 marks]
 - (iii) Open markets operations (OMO) [2 marks]
- (b) Characterize the risk exposure of the following financial institution transactions.
- (i) A Bank finances a ksh 10m six year fixed rate commercial loan by selling one year certificate of deposit.
 - (ii) An insurance company invests its policy premiums clearing operations.
 - (iii) A Japanese bank acquires a Kenyan Bank to facilitate clearing operations.
 - (iv) A bond dealer uses his own equity to buy Kenyan debt on the less developed countries (LDC) market.
 - (v) A Kenyan bank sells two year fixed rate notes to finance a two year fixed rate loan to a Ugandan entrepreneur. [5 marks]

- (c) What does duration tell you about the sensitivity of a bond portfolio to interest rates? [2 marks]

A five year bond with A yield of 11% pays an 8% coupon at the end of each year;

- (i) What is the bond's price [2 marks]
(ii) What is the bond's duration [2 marks]
(iii) Use the duration to calculate the effect of the bond's price of a 0.2% decrease in its yield.
(d) How do financial institutions help individual savers diversify their portfolio risks? Which type of financial institution is best able to achieve this goal? [8 marks]

QUESTION TWO

- (a) Using a case study of a specific commercial bank in Kenya, discuss how banks in Kenya can ensure success by practicing good credit management. [10 marks]
(b) Discuss the risk and returns that financial institutions face engaging in off balance sheet activities. [10 marks]

QUESTION THREE

- (a) State and explain the options provided within the basel II framework for the measurement of operational risk in order to ensure proper capital allocation. [10 marks]
(b) Identify and discuss SIX main objectives for which the banking industry is heavily regulated. [6 marks]
(c) Discuss the role of the capital markets authority in the conduct of investment banking in Kenya. [8 marks]

QUESTION FOUR

- (a) Explain the recent key Bank innovations in Kenya. [6 marks]
(b) Identify the reasons that may have led to the collapse of a number of investment securities firms in Kenya. [6 marks]

- (c) What are some of the special risk and considerations when lending to small businesses rather than large businesses and how can they be mitigated. [8 marks]
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