

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE
AND BACHELOR OF COOPERATIVE MANAGEMENT**

BCOM 432: MANAGEMENT OF FINANCIAL INSTITUTIONS

STREAMS: BCOM & BCOP Y4S1

TIME: 2 HOURS

DAY/DATE: THURSDAY 23/09/2021

11.30 A.M – 1.30 P.M.

INSTRUCTIONS:

- **Answer question ONE and any other TWO.**

Question one

- Financial markets play a significant role of saving mobilization and capital formation. Apart from these roles describe their contribution to an economy. (10 marks)
- Using an illustration, describe how financial institutions are able to facilitate reduced transaction cost. (6 marks)
- Explain how regulations ensure the creation of market confidence and transparency for investors. (10 marks)
- Describe how discount window is used to control the supply of money in an economy. (4 marks)

QUESTION TWO

- Describe any 3 types of financial intermediaries that pool money from the public through contractual arrangement other than deposits. (6 marks)
- Clearly describe the financial activity regulation and its importance in ensuring soundness of financial institutions and markets. (6 marks)
- Distinguish between money market and capital market. (4 marks)

- (d) Assume the book value of a certain bank is as follows;

Assets	Book value in millions
Government treasury bills	300
Bonds	250
Mortgages	1250
Commercial	2000
	3800

You are given credit classification as follows 0%, 40%, 50% and 100%. Assuming the tier 1 capital requirements is 6% of the book value of assets and the minimum total capital (tier 1 and tier 2) is 20% of the risk weighted asset.

Required, calculate

- (i) Minimum core capital (2 marks)
 (ii) Supplementary capital (2 marks)

QUESTION THREE

- (a) Discuss the principles to be followed by regulatory bodies when setting up rules and policies. (8 marks)
 (b) Highlight the role of the body that is in charge of retirement benefit scheme. (6 marks)
 (c) Consider a simple financial institution balance sheet as shown below before withdrawal.

Assets	Sh ‘M’	Liability 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 institution and the financial institutions receives no new deposit to replace the withdrawal. Show the effect of this withdrawal on the balance sheet. (2 marks)

Explain the two main types of liquidity risk that can pose a challenge to a financial institution. (4 marks)

QUESTION FOUR

- (a) In provision of their services insurance companies are faced with different types of challenges that could result to their failure. Discuss any four of these challenges.(8 marks)

- (b) Highlight the main limitations involved in organizations creating their own rules independently. (4 marks)
- (c) Consider a financial institution with the following balance sheet

Assets	Sh 'M'	Equity and Liabilities	Sh 'M'
Assets	200	Liabilities	150
		Equity	50
	<u>200</u>		<u>200</u>

Suppose that the manager calculates the duration of assets is 6 years and duration of liabilities is 4 years. The manager learns from economic forecasting that the rates are expected to rise from 12% to 13% in the immediate future. Calculate the effects of change in interest rate to equity holder worth, assets and liabilities. (8 marks)
