

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
RESIT/SPECIAL EXAMINATION**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
COMMERCE**

BCOM 432: MANAGEMENT OF FINANCIAL INSTITUTIONS

STREAMS: BCOM & BCOP

TIME: 2 HOURS

DAY/DATE: TUESDAY 02/11/2021

2.30 P.M – 4.30 P.M.

INSTRUCTIONS:

- Answer Question One and any other Two.

Question One

- a) Explain the functions that are performed by financial institutions and intermediaries all over the world (10 marks)
- b) Describe the main objectives of coming up with rules and regulations directing the conduct of financial institution (10 marks)
- c) In provision of their services commercial banks are faced with different types of risks that could result to their failure. Discuss any 5 of these risks (10 marks)

Question Two

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

Assets	sh 'M'	Liabilities and Equity	sh 'M'
Cash	5	Deposits	50
Non liquid Asset	70	Equity	20
	<u>70</u>		<u>70</u>

Suppose the depositors unexpectedly demand to withdraw sh 15 million, perhaps due to release of negative news about profits of the financial institution 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 organisation

(4 marks)

d) Discuss the various forms of regulation applicable to financial institutions and markets (8 marks)

Question Three

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

b) Highlight the role of the Insurance Regulatory authority in Kenya (6 marks)

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

Assets	Book Value in Millions
Government treasury bills	500
Bonds	300
Mortgages	400
Commercial Loans	1500
	2700

You are given credit classification as follows 0%, 40%,50% and 100% .Assuming the tier 1 capital requirements is 8% of the book value of assets and the minimum total capital (tier 1 and tier 2) is 20% of the risk weighted asset.

Require, calculate;

Minimum core capital (3 marks)

Supplementary capital (3 marks)

Question Four

a) Describe any 6 limitations 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'
Cass	80	Deposit	100
Gross Loans	120	Equity	100
	<u>200</u>		<u>200</u>

Suppose that the manager of this financial institution realises that loan amount of sh 20 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)

b) Advice the manager on any 3 credit selection strategies to follow in order to avoid future defaults (6 marks)

