

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS.

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
COMMERCE

BCOM 432: MANAGEMENT OF FINANCIAL INSTITUTIONS

STREAMS: BCOM Y4S1

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 5/12/2018

11.30 A.M - 1.30 P.M

INSTRUCTIONS:

- Answer Question ONE and any other TWO Questions.
- Do not write anything on the question paper

QUESTION ONE

(a) Suppose that the finance manager calculated that the duration for assets is 10 years and the duration for liabilities is 5 years. The managers learn that due to the economic situation interest rates are expected to rise from 10% to 12% in the future.

The financial institutions balance sheet is as follows:

Assets (Million)	Liabilities (Million)
Assets <u>12,000</u>	Liabilities 10,000
	Equity 2,000
<u>0</u>	<u>12,000</u>

(i) Calculate the potential losses to equity shareholders net worth, assets and liabilities.

[7 Marks]

(ii) Draw the balance sheet showing the effect of interest rate.

[3 Marks]

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- (b) Discuss how liquidity risk can be managed. [5 Marks]
- (c) Explain the consequences of an unregulated financial institution. [8 Marks]
- (d) Consider a financial institution that issues 1000 million of liabilities with 1 year to maturity to finance their purchase of Kshs.1000 million of assets with a 2 year maturity. The cost of liabilities is 10% and interest return on the assets is 12% per year. Using calculation, explain how the maturity of assets and liabilities are mismatched. [4 Marks]
- (e) Highlight the functions of Insurance Regulatory Authority. [3 Marks]

QUESTION TWO

- (a) Discuss why it is necessary for local and international financial markets to be regulated. [6 Marks]
- (b) Explain the main classification of financial markets. [6 Marks]
- (c) Discuss the limitations of self regulation organization. [8 Marks]

QUESTION THREE

- (a) Explain the main functions of retirement benefits authority. [6 Marks]
- (b) Discuss the two types of risks that financial institutions is exposed to when it holds long term assets relative to liability. [4 Marks]
- (c) Discuss the theories that explain the need for regulation of financial markets. [10 Marks]

QUESTION FOUR

- (a) Explain the main reason why financial institutions should be regulated [10 Marks]
 - (b) Describe the risks faced by financial institutions. [10 Marks]
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