

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

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

BCOM 430/432: MANAGEMENT OF FINANCIAL INSTITUTIONS

STREAMS: BCOM Y4S1

TIME: 2 HOURS

DAY/DATE: MONDAY 23/07/2018

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- Answer Question ONE and any other TWO questions.
- Show all your workings.
- Do not write on the question paper.

QUESTION ONE

- (a) Discuss the various forms of regulations imposed of financial institutions and markets. Explain their justification. (10 marks)
- (b) Consider the following summary report of a certain financial institution:

Repricing gaps for an FI (M Dollars)

	Assets	Liabilities	Gap
1 Day	40	60	20
More than 1 day – 3 months	60	80	20
More than 3 months – 6 months	140	170	30
More than 6 months – 12 months	180	140	40
More than 1 year – 5 years	80	60	20
More than 5 years	20	10	10
Cumulative	520	520	

Also assume that short terms interest rates rise by $\frac{1}{2}$ percent.

- (i) Compute the annualized change in the Financial institution's future net interest income in the first bucket. (2 marks)
- (ii) Estimate the cumulative gaps over various repricing categories or buckets. (2 marks)
- (iii) If ΔR_i is the average interest rate change affecting assets and liabilities that can be repriced within a year. Compute the cumulative effect on the bank's interest income. (7 marks)
- (c) Giving justification for institutional approach to regulation of financial institutions in Kenya, briefly discuss how this approach is applied. (7 marks)
- (d) "There appears to be regulatory gaps in Kenya." Discuss and state your position. (6 marks)

QUESTION TWO

- (a) Discuss the roles and functions of Central Bank of Kenya and Insurance Regulatory Authority as regulators of Financial Institutions in Kenya. (12 marks)
- (b) In the recent past, we have experienced series global financial crises. Briefly suggest possible solutions to these problems from the Financial Institutions and Market perspectives? (8 marks)

QUESTION THREE

- (a) A number of MOUs have been signed among the regulators in Kenya. Discuss the FIVE areas of collaborations among the regulators. (10 marks)
- (b) There has been a discussion that regulation of institutions and markets in Kenya should be consolidated. Discuss the case for and against consolidation. State your position. (10 marks)

QUESTION FOUR

- (a) Using examples discuss how financial institutions in Kenya are addressing governance issues. (10 marks)
 - (b) Explain how the regulators in Kenya have implemented the Basle Committee recommendations. (10 marks)
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