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 TIME: 2 HOURS

DAY/DATE: WEDNESDAY 03/02/2021 2.30 P.M – 4.30 P.M.

INSTRUCTIONS

- **Answer Question One and any other Two**

QUESTION ONE

a) The main function of financial markets is to facilitate the transfer of funds from surplus economic units to deficit units. Apart from this function explain the other functions it carries out (10 marks)

b) Clearly discuss the mandate of non-governmental organization which are created to enforce stand-alone industry and professional regulations and standards (10 marks)

c) Clearly explain the principles to be followed by regulators when formulating rules and regulations to oversee the functions of financial institutions and markets (10 marks)

QUESTION TWO

a) Explain the specialised functions performed by financial markets in Kenya (10 marks)

b) Clearly describe the financial activity regulation and its importance in ensuring soundness of financial markets (6 marks)

c) Assume that the book value of a certain bank are as follows

Assets	**Book value in Millions**
Government Treasury Bills	300
Obligation in Bonds	200
Mortgages	500
Commercial Loans	200
	1200

You are given credit classification as follows 0%, 30%, 60% and 10%

Assuming the minimum core/tier 1 capital requirement is 5% of the book value of assets and the minimum total capital (core and supplementary capital) is 10% of the risk weighted asset. Calculate;

i. Minimum core capital (2 marks)

ii. Minimum total capital requirement hence supplementary capital required by this bank

(2 marks)

QUESTION THREE

a) Discuss the various types of risks face by insurance companies in the Kenyan industry

(8 marks)

b) Highlight the functions of the authority incharge of maintaining pension schemes (6 marks)

c) Consider a simple financial institution balance sheet as shown below

Before Withdrawal

Balance Sheet

Assets	Sh 'M'	Liabilities and Equity	Sh 'M'
Cash	30	Deposits	80
Non Liquid Asset	70	Equity	20
	100		100

Suppose the depositors unexpectedly demand to withdraw 30 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)

d) Explain the possible solutions to liquidity risk that can be implemented by an organisation

(4 marks)

QUESTION FOUR

a) Consider a financial institution with the following balance sheet

Asset	sh 'M'	Equity + liabilities	sh 'M'
Cash	40	Deposit	110
Gross loans	90	Equity	20
	130		130

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 (3 marks)

b) Describe some of the functions that are carried out by commercial banks in Kenya (10 marks)

c) Highlight the functions of the capital market authority (7 marks)
