



MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE OPTION).

BAC 310: MANAGEMENT OF FINANCIAL INSTITUTIONS.

DATE: 6/12/2021

TIME: 2.00-4.00 PM

INSTRUCTIONS

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

Investment banks help companies and government and their agencies to raise money by issuing and selling securities in the primary market. According to its organization structure, it is split into front office, middle office and back office.

- a) Explain the main functions of the front office (6 marks)
- b) Explain any two dimensions through which liquidity risk manifests (4 marks)
- c) Explain the following risks that are faced by insurance companies. (6 marks)
 - i) Product design and pricing risk
 - ii) Actuarial risk
 - iii) Re-insurance
- d) The regulatory framework for pensions (RBA) retirement benefits authority saw a retirement benefits sector with little effective regulations and supervision through its regulatory framework and policies, a new legislation has been founded two tenets. Discuss this statement. (8 marks)
- e) Explain any three parties involved in a securitization transaction. (3 marks)
- f) State three functions of investment banking. (3 marks)

QUESTION TWO (20 MARKS)

The central Bank of Kenya (CBK) as the regulatory body mandated to license and supervise the operation of commercial banks in Kenya through the provisions of CBK Act (Cap 491) recently carried out an evaluation on the performance of three major commercial banks using CAMEL rating system. The results of this evaluation based on the CAMEL scale of 1 to 5 are as given below.

BANK	CAPITAL	ASSETS	MANAGEMENT	EARNINGS	LIQUIDITY	COMPOSITE
KCB LTD	1	2	1	1	1	1
ABSA LTD	2	1	3	3	3	3
COOP BANK	4	4	4	5	5	4

Required:

- a) Interpret the results obtained based on individual parameter and the composite parameters (15 marks)
- b) How can individual savers use financial institutions to reduce the transaction costs of investing in financial assets (5 marks)

QUESTION THREE (20 MARKS)

- a) Financial institutions are considered to be special because of the various services they provide to sectors of the economy. Explain the following areas of financial institutions specialness
 - i) Monitoring costs
 - ii) Denomination intermediation
 - iii) Credit allocation (6 marks)
- b) State and explain any three agency functions of commercial banks (6 marks)
- c) How do financial institutions use securitization to manage their interest rate, credit and liquidity risk. (8 marks)

QUESTION FOUR (20 MARKS)

- a) The capital of a bank can be divided into “tiers”. State and explain any four subdivisions that are consisted TIER 2 capital. (8 marks)
- b) State any four supervisory functions of insurance regulatory authority. (4 marks)
- c) In the management of pension funds, state and explain the four general principles of good governance. (8 marks)

QUESTION FIVE (20 MARKS)

- a) The reform of the pension system in Kenya to date has had a positive impact on the occupational pension sector, but a more limited impact in terms of addressing the key weakness of the current system of poor overall levels of coverage and benefit adequacy. Explain the key motivations for further reform. (10 marks)
- b) What benefits would an investment banker obtain by getting into the investment banking business (4 marks)
- c) How do financial institutions help individual savers diversity their portfolio risks. Which type of financial institution is best able to achieve this goal. (6 marks)