



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT**

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

**THIRD YEAR SECOND SEMESTER EXAMINATION FOR
BACHELOR OF COMMERCE (FINANCE OPTION)**

BAC 310: MANAGEMENT OF FINANCIAL INSTITUTIONS

DATE:

TIME:

INSTRUCTIONS

Answer question ONE and any other TWO questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) The reform of the a pension system in Kenya to date has had impact of the occupational pension, but a more limited impact in terms if addressing the very weakness of the current system of poor overall levels of coverage and benefit adequacy with reference to this fact explain four motivations for further reform (8 marks)
- b) The central bank of any country is the regulatory body that is mandated to license and supervise the operations of all commercial banks through the provisions of the Act. CBK Kenya recently carried out an evaluation on the performance of three major commercial banks using the CAMELS SCALE of 1 to 5 is given below

Bank

Composite

Kenya Commercial Bank	1
Gulf Bank	3
First Community Bank	4

Interpret the results obtained based on the composite parameter and identify the kind of supervisory attention that the CBK should direct to each bank (6 marks)

- c) Banking crisis occurs when many banks in a country are in a serious solvency or liquidity problems at the same time. Kenyan financial system experience this in the years 2007-2008. Identify and explain any five measures that the government put in place to avoid recurrence (10 marks)
- d) How can individual savers use financial institutions to reduce the transaction costs of investing in financial assets (6 marks)

QUESTION TWO (20 MARKS)

- a) Explain the following parties as used in securitization transaction (6 marks)
- (i) originator
 - (ii) Obligator
 - (iii) Special purpose vehicle
- b) Explain the following risks faced by financial institutions clearly showing how they can be measured (6 marks)
- (i) Interest rate risk
 - (ii) Credit risk
 - (iii) Market risk
- c) With respect asset liability management, state three actions that managers should take in order to successfully monitor the asset liability management of a bank (3 marks)
- d) Describe the difference between defined benefit pension fund and defined contribution pension fund (5 marks)

QUESTION THREE (20 MARKS)

- a) In CAMELS rating system, the board of directors and management have a fiduciary responsibility to the members to maintain very high standard of proficiency conduct. State four ways through which this can be demonstrated (4 marks)
- b) What benefits could a commercial banker obtain by getting into investment banking service (5 marks)

- c) State and explain any three sources of supplementary capital (6 marks)
- d) HOW does the regulation of insurance companies compare with that of commercial banks. (5 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the following general areas of financial institution specialness (8 marks)
 - (i) Liquidity and price risk
 - (ii) Credit allocation
 - (iii) Maturity intermediation
 - (iv) Monitoring costs
- b) State six contents of liquidity management policy (3 marks)
- c) Explain the activities that are carried out in the following parts of an investment bank (4 marks)
 - (i) Middle office
 - (ii) Back office
- e) How can a financial institution discipline a country that has threatened not to repay its loans (5 marks)

QUESTION FIVE (20 MARKS)

- a) Explain the following risk as faced by insurance companies giving examples (8 marks)
 - i) Underwriting risk
 - ii) Product design and pricing risk
 - iii) Insolvency risk
 - iv) Re-insurance risk
- b) In the management of pension funds, state and explain three principles of investment policy (6 marks)
- c) What are some of the special risks and considerations when lending to small businesses rather than large businesses (6 marks)