MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 310: MANAGEMENT OF FINANCIAL INSTITUTIONS

DATE: 15/4/2019 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Explain the Role played by any three investment advisory companies. (6 marks)

b) Characterize the risk exposures of the following financial institution transactions (5 marks)

i) A bank finances a kshs.10M six year fixed rate commercial loan by selling one year certificate of deposit.

ii) An insurance company invests its policy premiums in a long-term municipal bond portfolio.

iii) A Japanese bank acquires a Kenyan bank to facilitate cheering operations.

iv) A bond dealer uses his own equity to buy Kenyan debt on the less developed countries market.

v) A Kenyan bank sells two-year fixed rate notes to finance a two year fixed rate loan to a Ugandan entrepreneur.

c) Describe the difference between a defined benefit pension fund and a provident fund benefits. (4 marks)

d) Explain the following types of securitization instruments (4 marks)

i) Pass through securities (2 marks)

ii) Tranched securities (2 marks)

e) Explain the following special functions of financial institutions:-

   i) Monitoring costs (2 marks)

   ii) Maturity intermediation (2 marks)

   iii) Reduced transaction costs (2 marks)

f) State five objectives of bank regulation (5 marks)

QUESTION TWO (20 MARKS)

a) Financial intermediation is the routing of savings investments through financial intermediaries. It's a process through which an economy's savings are transformed into capital investments. In reference to this, explain the two types of financial intermediation. (4 marks)

b) State any four items that a liquidity policy should specifically state. (4 marks)

c) Explain any four monetary regulatory tools used by the government. (8 marks)

d) How can individual savers use financial institutions to reduce the transaction costs of investing in financial assets. (4 marks)

QUESTION THREE (20 MARKS)

a) The commercial banks serve as the Kingpin of the financial system of the country. State and explain the three primary functions of commercial banks. (6 marks)

b) State any four key factors to consider when assessing the banks earnings. (4 marks)

c) What are the definitional differences between tier I and II capital. (2 marks)

d) Compare the regulation of commercial banks with that of insurance companies (5 marks)

e) What is the National role of investment banks (3 marks)

QUESTION FOUR (20 MARKS)

a) State and explain any five risks faced by insurance companies (10 marks)

b) Interest rate Risk refers to potential impact on Net interest income or market value of equity caused by un-expected changes in market interest rates. State and explain three categories in which this risk can be subdivided. (6 marks)

c) Explain the following parties involved in a securitization transaction.

   i) Originator (2 marks)

   ii) Rating Agency (2 marks)

QUESTION FIVE (20 MARKS)

a) Explain the different types of provident fund benefits. (8 marks)

b) How can a financial institution discipline a country that has threatened not to repay its loans. (4 marks)

c) Commercial banks represent the largest group of depository institutions measured by asset size. They perform functions similar to those of savings institutions and credit unions. In reference to the above statements, discuss the Agency functions of commercial banks. (8 marks)