

KABARAK



UNIVERSITY

**UNIVERSITY EXAMINATIONS
2009/2010 ACADEMIC YEAR**

**FOR THE DEGREE OF BACHELOR OF
COMMERCE**

COURSE CODE: FNCE 414

**COURSE TITLE: MANAGEMENT OF FINANCIAL
INSTITUTIONS**

STREAM: Y4S1

DAY: WEDNESDAY

TIME: 2:00 – 4:00 P.M.

DATE: 24/03/2010

INSTRUCTIONS:

- i.** The paper contains **FOUR** questions
- ii.** Answer **ALL** the questions
- iii.** Marks are allocated at the end of each question
- iv.** All Workings Leading to Answers **MUST** Be Clearly Shown
- v.** Any irregularity will be punished severely.

PLEASE TURNOVER

QUESTION ONE:

- (a) Define financial intermediaries and Critically evaluate the benefits of financial intermediation (15 marks)
 - (b) Clearly explain how a firm’s performance can be analyzed using a Camel Rating System. (7 marks)
 - (c) State and explain **any two** objectives of GAP management (3 marks)
- (Total: 25 marks)**

QUESTION TWO:

- (a) It has been suggested that financial measures should not be the sole focus when carrying out performance evaluation. Rather, financial measures should be seen as only one of several dimensions that an analyst should utilize to arrive at an integrated analysis of performance.

Required:

Outline the other dimensions that should be considered when analyzing performance of financial institutions. (10 marks)

- (b) As a money market manager, you must decide whether to buy a rather large amount of commercial paper from either of two companies say, MAU and MIGINGO. The following are selected items from their financial statements. The figures are in Ksh. Millions

	MAU	MIGINGO
Cash	143.3	351.2
Accounts receivable	1598.7	1591.3
Inventory	253.5	159.3
Notes payable	227.4	178.3
Accounts payable	1244.0	1237.9
Accrued expenses	595.7	443.1
Sales	9012.1	8436.7
Credit sales	85%	75%
Cost of Goods Sold	1602.7	1437.3
Interest	412.9	463.6
Lease payments	124.9	117.5
Preferred payments	13.5	45.7

Required:

With help of the relevant ratios, indicate which company is in a better short-term position.

(15 marks)
(Total: 25 marks)

QUESTION THREE:

- (a) What are the definitional differences between Tier 1 and Tier II capital (6 marks)
- (b) Credit scoring consists of assigning points according to the characteristics and then granting credit if the lender meets the lender's minimum standard points.

Required:

List and explain **SIX** advantages of credit scoring (6 marks)

- (d) What limitations and benefits do the (Basle Accord) risk based capital Requirements have? (13 marks)

(Total: 25 marks)

QUESTION FOUR:

(a) Plain bank has \$10 million in cash and equivalents, \$30 million in loans, and \$15 in core deposits.

- i What are the general properties of duration? (5 marks)
- ii Calculate the financing gap. (3 marks)
- iii What is the financing requirement? (3 marks)
- iv How can the financing gap be used in the day-to-day liquidity management of the bank? (4 marks)

(b) State and explain some of the weaknesses of re-pricing model (4 marks)

(a) 'Although asset and liability management has traditionally been the major concern of banks and financial institutions, in more recent years, owing to the intense competition that has been witnessed in the business environment in which the entities operate, they have been forced to focus as well on off balance sheet activities in order to seek additional revenue.' Evaluate this statement clearly explaining at least **five** off balance sheet activities which these institutions engage in aggressively to realize their objectives. (6 marks)

(Total: 25 marks)

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