KABARAK UNIVERSITY

EXAMINATIONS

2008/2009 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: **FNCE 414**

COURSE TITLE: **MANAGEMENT OF FINANCIAL INSTITUTIONS**

STREAM: **Y4S1**

DAY: **THURSDAY**

TIME: **2.00 – 4.00 P.M.**

DATE: **26/03/2009**

INSTRUCTIONS:

- Question One is Compulsory
- Attempt question one and any other two Questions.

PLEASE TURN OVER

QUESTION ONE

a) What are financial intermediaries and what roles do they play in an economy? (15mks)

b) Explain the techniques which banks and financial institutions can use to reduce default or credit risk. (4mks)

c) Which techniques can management of a bank use to reduce its exposure to interest rate risk? (4mks)

d) '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. (7mks)

QUESTION TWO

Since the late 1980s, many national financial markets got aboard the liberalization process to enhance global integration of all financial markets.

Required:

a) Explain the justification of attempts to achieve global integration of all financial markets. (8mks)

b) Despite efforts towards global financial market integration, there are many national financial markets that have remained largely segmented.

  i) What have been the major causes of such segmentations? (6mks)

  ii) What are the major effects of financial markets segmentation? (6mks)

QUESTION THREE

i) Distinguish between Defined pension plan and defined provident plan. (1mk)

ii) Explain the following bench marks that can be used to evaluate the financial performance and position of a bank.

  a) Return on total assets (1½mks)

  b) Return on equity (1½mks)

c) Net interest margin (1½mks)

d) Liquidity (1½mks)

e) Minimum statutory ratio (1½mks)

f) Core capital to total deposit liabilities (1½mks)

iii) What are some of the challenges facing banks and financial institutions in Kenya today and how can these challenges be addressed? (10mks)

QUESTION FOUR

i) What has been the impact of advances of technology on management of financial institutions globally? (10mks)

ii) 'Banks and financial institutions are most heavily regulated of all the corporate entities the world over'. Briefly explain this statement, highlighting the rationale for their regulation and the various forms of regulation which authorities normally use. (10mks)

QUESTION FIVE

a) As an investor, would you rather invest in a firm with a policy of maintaining a constant payout ratio, a constant dividend per share, or a constant regular quarterly dividend plus a year-end extra when earnings are sufficiently high or corporate investment needs are sufficiently low? Explain your answer. (10mks)

b) How would each of the following changes probably affect aggregate payout ratios? Explain your answer.

i) An increase in personal income tax rate (2mks)

ii) A liberalization in depreciation policies for income tax purpose (2mks)

iii) A rise in interest rates (2mks)

iv) An increase in corporate profits (2mks)

v) A decline in investment opportunities (2mks)