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: **4:00 – 6:00P.M.**

DATE: **09/12/2009**

NB! INSTRUCTIONS:

1. **Answer questions ONE and any other TWO questions**
2. **Write your registration number clearly, be neat, brief and to the point**

Question 1

i. In simple terms management can be defined as "the Art of establishing an environment in which human capital can freely perform as individuals and yet co-operate towards an achievement of group objectives".
With the above briefed background in mind discuss 5 managerial roles and describe 3 skills of the same. **10 marks**

ii. Accounting and economic models are used in basic principles of modern corporate finance management as tools to assists when making investment decisions. Discuss the two models in respect to market value. **8 marks**

iii. Discuss the role of regulation in shaping the confidence and convenience functions in the management of financial institutions. **4 marks**

iv. Financial Institution Supervision Department Annual Report 2004, gave the management guidelines of the Kenyan Financial Sector. In respect to this describe the sector and list 4 of its common guidelines. **8 marks**

Question 2

i. The Kenyan government continues to develop the national Anti-money laundering at the same time combating the financing of criminal activities such as the funding of terrorism.
Discuss any 5 provisions that are included in the Bill to this effect. **10 marks**

ii. In the process of classification and clarification, the Kenyan 2006 Microfinance Bill gives definitions.
Describe any 5 of the definitions. **10 marks**

Question 3

i. Apart from retained earnings, there are other methods that managers of financial institutions can apply in capital formation strategies. Describe any 5 of these extra methods. **10 marks**

ii. Discuss the internal versus external resources of financial liquidity of financial institutions. **10 marks**

Question 4

i. At the moment many financial institutions have turned to Off- Balance Sheet Activities in managing their profitability and capital adequacy, as an expert you have been approached for advice. Give them a critical view on how to mutually use O.B.S.As for the benefit of the shareholder. **16 marks**

ii. Capital Generation Matrix is a useful instrument for capital planning, suppose that a financial institution expects the following results:

1 Growth opportunities of 12 percent
2 Return On Equity of 15 percent
3 Retention Ratio of 60 percent

Use the above data to estimate the growth rate (g) and expound on the other elements of the above data. **4 marks**

Question 5

i. As a prerequisite for adoption of the Risk Based supervisory framework, financial institutions supervisory department has developed Risk Management Guidelines for the financial sector. Describe any 5 of the guidelines that cover the most common risks in financial institutions. **10 marks**

ii. Discuss the challenges faced by the managers in the financial service industry. **10 marks**