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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR
FIRST YEAR, SECOND SEMESTER EXAMINATION
FOR THE DIPLOMA IN BANKING AND FINANCE
DBA 1119-MANAGEMENT IN BANKING

Date: 9th December 2022

Time: 2.30pm-4.30pm

INSTRUCTION TO CANDIDATES:

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Financial intermediation is the routing of savings to investments through financial intermediaries. It is a process through which an economy's savings are transformed into capital investments. There are two types of Financial Intermediations: Traditional Financial Intermediation and Contemporary Financial Intermediation. Describe three features which separate the two. (6 Marks)
- b) BASEL III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk agreed upon by the members of the Basel Committee on Banking Supervision in 2010. It was formulated due to the weaknesses of Basel II. Identify and explain three main objectives of BASEL III. (6 Marks)
- c) Differentiate between Tier 1 and Tier 11 capital as defined in the capital adequacy. (4 Marks)
- d) Outline six forms in which banks advances loan to their customers. (6 Marks)
- e) Highlight the agency functions performed by commercial banks in Kenya. (6 Marks)
- f) Mention four options a bank can meet its reserve requirement. (2 Marks)

QUESTION TWO (20 MARKS)

- a) Securitisation, also termed as structured finance, is the creation and issuance of debt securities, or bonds, whose payments of principal and interest derive from cash flows generated by separate pool of assets. It, is a form of secured funding through issuance of bonds in a specific pool of assets. Discuss three main Parties involved in a Securitisation Transaction. (6 Marks)
- b) Explain the rationale of bank regulation in the Kenyan industry. (6 Marks)
- c) Justify the objectives of regulation of commercial banks. (8 Marks)

QUESTION THREE (20 MARKS)

- a) Internal Controls are also essential to enable management to ensure that operating units are acting within the parameters established by the board of directors and senior management. Examine aspects of internal controls that deserve special attention. (8 Marks)

- b) The Central Bank of Kenya (CBK) as the regulatory body mandated to license and supervise the operations of commercial banks in Kenya through the provisions of the CBK Act (Cap 491) recently carried out an evaluation on the performance of three major commercial banks using the CAMEL rating system. The results of this evaluation based on the CAMEL scale of 1 to 5 are as given below;

BANK	CAPITAL	ASSETS	MANAGEMENT	EARNINGS	LIQUIDITY	COMPOSITE
EQUITY LTD	1	2	1	1	1	1
KCB LTD	2	1	3	3	3	3
FAMILY LTD	4	4	4	5	5	4

- i) Interpret the results obtained based on individual parameters and the composite parameter. (8 Marks)

- ii) Based on the interpretation made in (a) above identify the kind of supervisory attention that the CBK should direct to each bank. (4 Marks)

QUESTION FOUR (20 MARKS)

- a) Financial institutions are considered to be special because of the various services they provide to sectors of the economy. Discuss five areas of specialness of these financial institutions. (5 Marks)

- a) Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Excessive interest rate risk can pose a significant threat to a financial institution’s earnings and capital base. Analyse the classification of interest risk. (10 Marks)

- b) Discuss the elements used by insurance firm to assist them in off-site and on-site evaluating the risks. (5 Marks)

QUESTION FIVE (20 MARKS)

- a) Analyse the components of a bank condition assessed by CAMEL rating system. (10 Marks)

- b) Central bank will use different techniques when controlling the money supply in the economy. Demonstrate five major tools that it will use to regulate the money circulation. (10 Marks)