KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2018/2019

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

BAC 817: FINANCIAL INTERMEDIATION

DATE: Friday, 29th March 2019 **TIME:** 5.30 p.m. - 8.30 p.m.

INSTRUCTIONS:

This paper has FOUR questions.
Answer all questions.

QUESTION ONE

Deposit taking SACCOs evaluate their performance using different metrics .Using the Capital adequacy, Asset quality, Earnings and Liquidity (CAEL) rating model adopted in 2012;comment on the trend of performance of SACCOs from 2015 to 2017

	2015	2016	2017
Core Capital (Millions)	64,254	54,943	41,712
Total Assets(Millions)	442,277	393,498	342,848
NPL Amount (Millions)	21,000	14,567	13,218
Provision Amount (Millions)	14,640	10,788	9,901
Loans(Millions)	331,212	297,604	258,264
Net Income after Tax	11,228	11,228	7,674
Net Income before Tax	11,999	8,868	8,194
Withdraw-able Deposits (savings)			

Required : calculate the following ratios

a) Capital Adequacy [3 Marks]
b) Asset Quality [3 Marks]
c) Earnings Rating [3 Marks]

QUESTION TWO

Central bank of Kenya has added one objective to its portfolio , financial inclusion . Africa is at the core of the ''bottom billion'' poverty problem. Central bank of Kenya has developed **Instruments for Banking the Bottom Billion**

Identify and explain FIVE Instruments of Banking the Bottom Billion initiated by Central bank of Kenya [5 Marks]

measurement of credit , market and operational risk are core in BASEL II, the risk based capital model . credit risk is based on determining <u>expected loss</u> in a given portfolio and <u>borrowers default limits .</u>

discuss the two concepts as they relate to credit risk [10 Marks]

QUESTION THREE

Financial system regulation is one of the pillars of financial stability . The changing dynamics of the financial system requires reconfiguration of the financial supervision framework .

Required :

a) Identify and explain five theories of financial regulations (10 Marks)
b) With clear examples, explain the four market supervision framework that exists globally (4 Marks)

The insurance industry in Kenya is moving towards the global risk based approach to management . the framework used globally is known as Solvency II. Discuss the effect of Solvency II on insurance companies risk management , clearly identifying each Pillar.

[10 Marks]

QUESTION FOUR

Asymmetric information is a challenge in financial markets . Asymmetric information is a situation in which economic agents involved in a transaction have different information

information can be seen as a valuable economic factor, especially in the allocation of scare economic resources, and the level of uncertainty that can ultimately determine utility levels(Nicholson,1998).

Discuss the reasons why asymmetric information can be a source of market failure. Use examples to illustrate your answers.

a) Insurance sector [3 Marks]
b) Banking sector [3 Marks]
c) Firms listed on securities or stock exchange [3 Marks]
d) Bond Market [3 Marks]