



BACHELOR OF FINANCIAL SERVICES

END OF SEMESTER EXAMINATIONS

BFS 1101: INTRODUCTION TO FINANCIAL SERVICES

Date: Monday, 14th December 2020

Time: 2 Hours

Instructions:

Answer all Questions

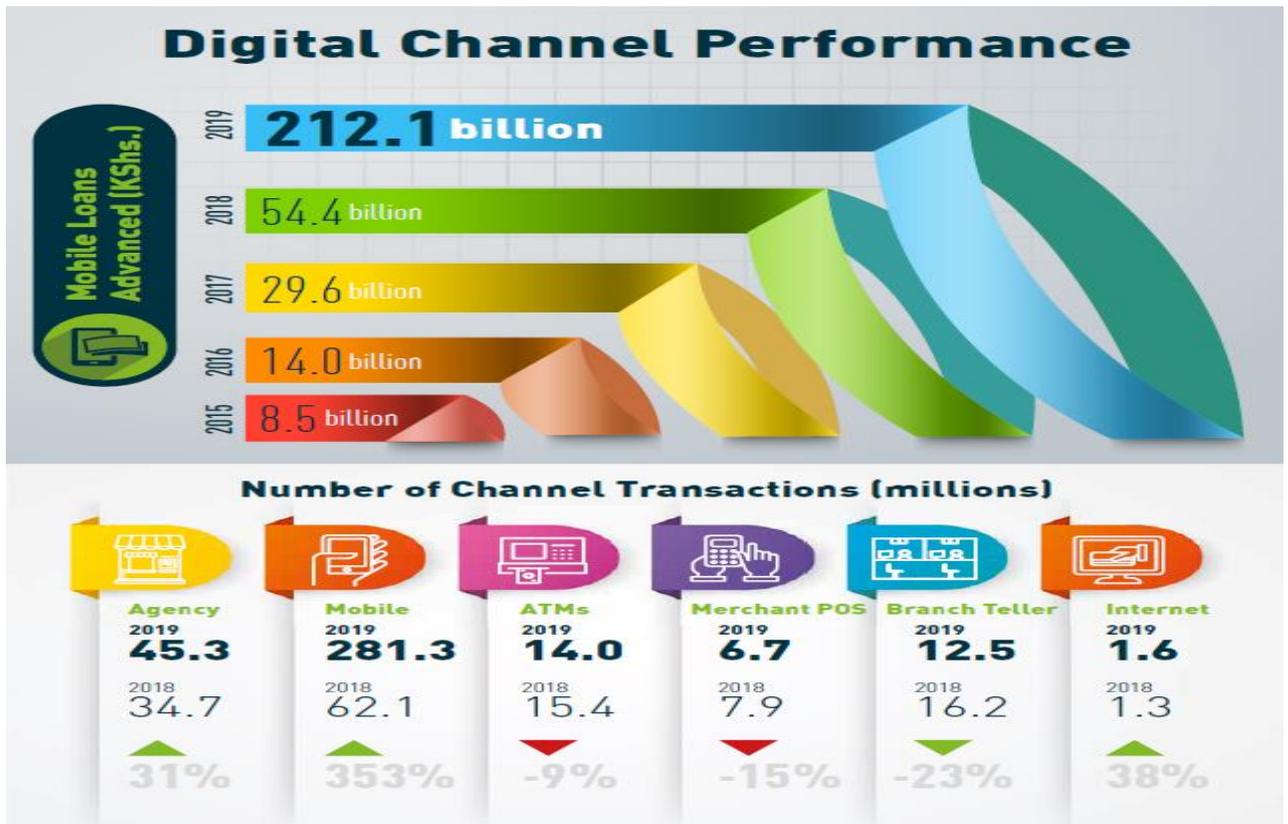
Question 1

The fintech space in Kenya is vibrant. In the recent past, the space has been the banking sector transformation driving force. KCB has evolved to be East Africa's largest commercial bank. Headquartered in Nairobi, it operates in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Burundi and Ethiopia (representative office). The banks' 2019 integrated annual report disclosed information below.

Branch vs Non-Branch Transactions



Digital Channel Performance



Giving examples, explain what the above information indicate as far as delivery of banking services in Kenya is concerned. **(10 marks)**

Question 2

- Banks play a key component of the financial system. Modern commercial banks perform a variety of functions and provide several services to their customers. List and explain FIVE (5) functions of a bank. **(10 Marks)**

- b. The COVID-19 pandemic could be the most serious challenge to financial institutions in nearly a century. As the economic fallout spreads, financial services players and especially retail banks find themselves trying to adapt to the new norm. Explain the concrete steps and strategies banks are adopting to serve their customers and communities in the wake of COVID-19 **(10 marks)**

Question 3

Tom is the managing director of Golden bank ltd. He is currently 47 years and is married with two children. Tom wants to take care of his future by taking an insurance policy that is going to ensure that he has some form of income in the future. He also wants the interest of his family to be taken care of incase he was to die before the age of 60 years. Tom is also worried at the expense that the bank is incurring in paying for the hospital bill of its employees and want to take an insurance policy that will take this into consideration. Tom is also worried by the decreased profit of the bank over the years which he attributes to cases of owners of small businesses dying before the pay for the loan.

Required:

Give a **detailed** advice to Tom on some of the insurance products that he can take to safeguard the financial interest of his future and reduce the risks that the bank is exposed to. **(10 marks)**

Question 4

Peter is the Chief operating officer of Benki Ltd, a regional bank which has headquartered in Nairobi. He has been invited to a board meeting where other directors of bank are. The intention of the meeting is to enable the other board members understand the risks that the company is exposed to based on how it is conducting it operations. James gives the following information as an account of the situation of the bank:

The bank currently has 120,000 customers who have deposited an amount of Sh. 15 billion. The deposits of the bank are divided as current account deposit which account for Sh. 6 billion and fixed deposit account which account for 9 billion. The bank does not pay interest on the current deposits, but it pays interest on the fixed account at a rate of 6% per annum. A large portion of the banks fixed deposits are for a period of one year. The bank has issued loans worth Sh. 12 billion. Half of this loan is in terms of bank overdraft and bills of exchange. The other half of the loan is long-term in nature with a large part of it being of more than 3 years. Further to this, the long-term loans constitute an amount of Sh. 250 million which was given to a company in South Sudan. This loan was denominated in terms of South Sudan pound.

James also indicated that the bank had spent an amount of Sh. 500 million to acquire a computer information system to make the operations of the bank efficient. Further to this, the bank will be spending an amount of Sh. 80 million to train its staff on how to use the system. The bank will also incur an additional Sh. 50 million per annum for the next ten years for the maintenance of the system.

Required:

Using the information presented above about the bank, evaluate various types of risk that the bank is exposed to **(10 Marks)**

Note: Marks will be awarded based on how well each type of risk has been explained.

Question 5

- a. BK Ltd operates as a bank whereby all its branches are located in the capital of the country. The bank wants to expand and reach new areas by acquiring another bank that has branches in different parts of the country. The bank wants to finance this acquisition by raising funds from the public. The bank has approached an investment banker who is going to facilitate the raising of the funds and the merger process. An investment banker agrees to underwrite an issue of 30 million shares of stock for BK Ltd on a firm commitment basis. The investment banker pays \$15.50 per share to BK Ltd. for the 20 million shares of stock. It then sells those shares to the public for \$16.35 per share.

(10 marks)

- 1.a. How much money does BK Ltd. receive?
- 1b. What is the profit to the investment banker?
- 2.a. If the investment bank can sell the shares for only \$14.75, how much money does BK Ltd. receive?
- 2.b. What is the profit to the investment banker?

- b. Refer to the question above 4a. Suppose, instead, that the investment banker agrees to underwrite the 30 million shares on a best-efforts basis. The investment banker is able to sell 20 million shares for \$15.50 per share, and it charges BK Ltd. \$0.375 per share sold.

(10 marks)

- 1a. How much money does BK Ltd. receive?
- 1b. What is the profit to the investment banker?
- 2a. If the investment bank can sell the shares for only \$14.75, how much money does BK Ltd. receive?
- 2b. What is the profit to the investment banker?