



STRATHMORE BUSINESS SCHOOL
BACHELOR OF FINANCIAL SERVICES
END OF SEMESTER EXAMINATION
BNK 3101: PRINCIPLES AND PRACTICE OF BANKING

Date: Thursday, 4th August 2022

Time: 2 Hours

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION 1 (30 Marks)

- (a) You are a loan officer at NCBA Bank. Mavazi Group Limited, a textile company specializing in casual outfits is one of the banks clients. The company was incorporated in 2013 and has a relationship with the bank for five years now. The firm has deposits in the fixed deposit account, current account and escrow account with the bank. Additionally, Mavazi Group Limited has rented a safe deposit locker and has made some investments in financial securities through the bank.

It is seeking a 95% asset financing facility of **Kshs. 5,300,000** to purchase winding and spinning machines so as to enhance production. The facility will be repaid in **48 months** and would attract a monthly installment of **Kshs. 144,565**. The client presently has another facility at Stanchart outstanding at **Kshs. 2.3M** repayable in **36 months** thereby attracting a monthly installment of **Kshs. 77,497**. The collateral for the facility if approved, will be joint ownership of the machines between the bank and the company until the loan and interest is fully cleared.

Required:

- i. Discuss using concrete examples, **five key elements** you would look at in the credit analysis process while writing a justification to support Mavazi Group Limited credit worthiness. **(10 marks)**
- ii. Evaluate **three** risks that Mavazi Group Limited possibly faces that the bank should consider while deciding whether or not to approve the loan. **(6 marks)**

- iii. Discuss the **general** bank-customer relationship and **three** special bank-customer relationships between NCBA Bank and Mavazi Group Limited. **(8 marks)**
- (b) Bank failure affects the financial system and disrupts economic growth. Explain in detail **three** internal factors that are behind bank failures and the preventive measures taken to minimize probability of failure due to the factors. **(6 marks)**

Question 2 (20 Marks)

- i. CBK Prudential Guidelines provide clear guidance on the conditions applicants must fulfill to be eligible to be granted a license to conduct banking, financial or mortgage business. Additionally, they guide on the responsibilities of applicants and the promoters while conducting the business of a financial institution in Kenya. Briefly discuss the capital adequacy requirements and liquidity management requirements that banks are required to follow in Kenya according to the guidelines. **(10 marks)**
- ii. In response to the 2007- 2008 global financial crisis the Basel Committee built up on the Basel II framework and introduced the Basel III framework. State the **three pillars** of the Basel accord and discuss **three** major revisions included in Basel III. **(10 marks)**

QUESTION 3 (20 Marks)

- i. CAMPARI lending framework is commonly used by banks in credit risk management. Evaluate the **seven** components of the framework. **(10 marks)**
- ii. Bad credit increases the risk of a bank as it results to defaulters, non-performing loans, and extended credit. If not well managed, it could lead to financial distress of the bank. Evaluate five **C's** leading to bad credit in the lending process. **(10 marks)**

QUESTION 4 (20 Marks)

- i. Compare and contrast the functions of investment banks and those of development banks. **(10 marks)**
- ii. A banker has certain obligations and rights as a result of the numerous bank-customer relationships. In this regard, discuss **four** obligations and **four** rights of a banker. **(10 marks)**

QUESTION 5 (20 Marks)

- i. Altman's Z-Score model is one of the models used as a numerical measure of the financial stability of companies including banks. You are provided with the following output of five banks based on the model. Discuss the three zones that the Altman Z score can fall under and explain what the scores below signify for each bank. **(10 marks)**

Bank	Altman Z -score
F	3.5
M	1.6
K	1.95
S	0.5
R	2.8

- ii. Distinguish the following products and services in banking: **(10 marks)**
- (a) Nostro account vs Vostro account
 - (b) Islamic banking vs conventional banking
 - (c) Bank overdraft vs Bill of exchange
 - (d) Current account vs savings account
 - (e) Credit card vs debit card

END