



**STRATHMORE UNIVERSITY BUSINESS SCHOOL**  
**BACHELOR OF FINANCIAL SERVICES**  
**END OF SEMESTER EXAMINATION**  
**BNK 3102: RETAIL BANKING & OPERATIONS**

**Date:** Tuesday, 1<sup>st</sup> August 2023

**Time:** 2 Hours

**Instructions**

- i. This examination consists of **FIVE** questions.
- ii. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

**QUESTION ONE**

**[TOTAL 30 MARKS]**

**a)** Bidii Savings bank has posted the following fees schedule for its business checking accounts:

Range	Monthly maintenance fee	Charge per check
Over Sh 200 000	Sh 0	Sh 0
Sh 150 000 to 200 000	Sh 300	Sh 20
Less than Sh 150 000	Sh 500	Sh 30

Explain the method used by Bidii Bank in pricing the deposit accounts and how it works

**[4 Marks]**

**b)** State the names of the following types of unsecured loans

**[4 Marks]**

- i. The repayments for the loan are deducted directly from the borrower's salary by the employer and remitted to the lender's account
- ii. Short term loans that are payable by the borrower the next pay day
- iii. The borrower is required to get a third party with good credit history to guarantee the loan
- iv. Safaricom's Fuliza loan

**c)** A credit score is a mathematical model that uses loan applicant characteristics to assist the lender in deciding whether or not to grant the loan. Identify any four characteristics that are commonly considered in analyzing a personal loan

**[4 Marks]**

**d)** Ms Makena obtained a 20-year mortgage loan of Ksh 14 million from KCB bank at an annual interest rate of 12% p.a. The loan is repaid on monthly basis. After repaying the loan for the last 7 years, Makena now wants to pay off the entire outstanding loan balance. As the loan officer advise her how much she will be required to pay

**[4 Marks]**

**e)** Identify any four agency services offered to retail clients

**[4 Marks]**

**f)** Explain any four limitations of credit creation

**[4 Marks]**

**g)** Explain the mechanism of clearing cheques

**[4 Marks]**

- h) Calculate the total amount of deposits that can be created from primary deposits of Ksh 780 000 if the cash reserve ratio is 6.5% [2 Marks]

## **QUESTION TWO**

**[TOTAL 20 MARKS]**

- a) Explain any five roles of the banks “front office” section [5 Marks]
- b) The bank’s treasury business is based on three fundamental pillars. Explain [6 Marks]
- c) Explain meaning of the following terminologies as used in FX trading
- i. Central bank “mean rates” [2 Marks]
  - ii. Spot rate [2 Marks]
  - iii. Foreign draft [2 Marks]
- d) Shortage of US dollar supply has put a lot of pressure on the local unit [ Kenya shilling]. Identify any three key sources of dollar supply in the Kenyan economy [3 Marks]

## **QUESTION THREE**

**[TOTAL 20 MARKS]**

- a) Explain any three benefits of relationship marketing to a bank [6 Marks]
- b) Explain any three socio-economic negative effects of money laundering [6 Marks]
- c) The Central Bank may require higher minimum capital ratios for an individual institution. Identify any four criteria that might prompt the central bank to place such a demand [8 Marks]

## **QUESTION FOUR**

**[TOTAL 20 MARKS]**

- a) Suppose a bank with Ksh 50 billion in assets has average asset duration of 3 years, and average liability duration of 1 year. The bank also has a total debt ratio of 90%. If the required rate of return is 12% and the bank is expecting a 50 basis point increase in interest rates, by how much will the equity value change? [6 Marks]
- b) The repricing model [RPM] is commonly used by banks in interest rate risk management. Explain four shortcomings of this model [4 Marks]
- c) Explain the three closing costs associated with mortgage loans [6 Marks]
- d) The Banking Act [Section II] places restrictions on facilities to insiders. Identify any four facilities that are prohibited under this section [4 Marks]

## **QUESTION FIVE**

**[TOTAL 20 MARKS]**

- a) Banks liquidity position is very critical for its operations and survival. Identify any four sources and demands for a bank’s liquidity [8 Marks]
- b) Outline any four drivers of e-banking [4 Marks]
- c) Explain the following Islamic banking products
- i. Mudharabah [ 1 Mark]
  - ii. *Musharakah* [ 1 Mark]
  - iii. Murabahah [ 1 Mark]
  - iv. Ijarah [ 1 Mark]
- d) Explain uses of MIS in each of the following departments
- i. Credit department [2 Marks]
  - ii. Cash department [2 Marks]