



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

DATE: Thurs, 1st Aug 2024

TIME: 08:00 – 10:00

Instructions

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

QUESTION ONE

- a) In order to promote sound banking practices in commercial banks' operations, section 24(4) of the Banking Act stipulates that there are some matters that the external auditor should immediately report to the Central Bank when they become apparent during the audit. Identify **five** such matters. **(5 Marks)**
- b) Management information system (MIS) is very critical for the bank's operations. Explain how MIS can be applied in the following areas **(9 Marks)**
 - i. Credit department
 - ii. Cash Department
 - iii. Forex department
- c) Explain any **five** methods that are employed in perpetrating money laundering **(5 Marks)**
- d) E-banking has revolutionized banking in the last two decades. However, there are some factors that are constraining its growth. Identify **five** constraints **(5 Marks)**
- e) Banks have the delicate task of maintaining sufficient liquidity to meet depositors' demand on one hand and on the other hand ensuring that any excess funds are kept in a profitable way in order to minimize the attendant opportunity cost. List **six** ways a bank could store her liquidity in a profitable way **(6 Marks)**

QUESTION TWO

- a) Explain the functions of the following back office departments **(6 Marks)**
 - i. Operations
 - ii. Financial control
 - iii. Compliance

- b) Banks mobilise deposits for the purpose of credit creation. However, there are factors that could limit the extend of credit creation. Identify **five** factors **(5 Marks)**
- c) Identify **five** market signals of a bank's liquidity management **(5 Marks)**
- d) Explain the following islamic banking products **(4 Marks)**
- i. Wadiah
 - ii. Hawala
 - iii. Takaful
 - iv. Ijarah

QUESTION THREE

- a) In the last two years the local unit has lost considerable ground against the greenback and other major currencies. Explain **four** determinants of the exchange rate. **(4 Marks)**
- b) The treasury business is based on three fundamental pillars of information technology, products and distribution channels. Elaborate on these **three** pillars. **(6 Marks)**
- c) Explain meaning of the following terms as used in forex trading **(4 Marks)**
- i. Foreign draft
 - ii. Central bank rate/ mean rate
 - iii. Lockbox banking services
 - iv. Balanced position
- d) Credit analysis is conducated in order to enable the bank to generate profitable loans that do not expose the lender to excessive amounts of risk. Banks typically use the CAMPARI framework for this purpose. Elaborate on the CAMPARI framework **(6 Marks)**

QUESTION FOUR

- a) Ms Adannah obtained a 5-year loan of Ksh 4 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 3 years, Adannah now wants to pay off the entire outstanding loan balance. As the loan officer advises her how much she will be required to pay. **(4 Marks)**
- b) Assuming that the total primary deposits equals Sh 10 000 and cash reserve requirement is 10% show the balance sheet of a bank at the level of maximum deposit creation. **(4 Marks)**
- c) XYZ Bank determines that its basic checking account costs the bank Sh 300 per month in servicing costs (assume the servicing costs are labor and computer time) and Sh 200 per month in overhead expenses. This account requires a Sh50 000 minimum balance. Additionally, the bank also tries to build a Sh 50 per month profit margin on these accounts.

Further analysis of XYZ Bank customer accounts reveals that for each Sh10 000 above the Sh 50 000 minimum balance maintained in its checking accounts, the bank saves about 6% in operating expenses with each customer account. For a customer who is consistent in

maintaining an average monthly balance of Sh 70 000, how much should the bank charge to protect its profit margin **(4 Marks)**

d) Majority of banks have embraced relationship marketing.

Required:

i. Explain **three** benefits of relationship marketing **(3 Marks)**

ii. Give **five** examples of relationship marketing tactics **(5 Marks)**

QUESTION FIVE

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? **(4 Marks)**

b) The repricing model is commonly used by banks in interest rate risk management. Explain **five** limitations of this model **(5 Marks)**

c) Assume that bank ABC has tier one capital of KES1 billion and tier two capital of KES500 million. It has KES40 billion in risk-weighted assets. Determine the bank's capital adequacy ratio and advise whether it meets the Basel III requirements **(5 Marks)**

d) The Central Bank may require higher minimum capital ratios for an individual institution. List six reasons that might trigger the central bank to impose this requirement. **(6 Marks)**