



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**SCHOOL OF BUSINESS & ECONOMICS**  
**UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS**  
**ADMINISTRATION WITH IT**  
**4<sup>TH</sup> YEAR 1<sup>ST</sup> SEMESTER 2022/2023 ACADEMIC YEAR**  
**MAIN CAMPUS REGULAR**

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**COURSE CODE: BAB 1417**

**COURSE TITLE: MANAGEMENT OF FINANCIAL SERVICES**

**EXAM VENUE:**

**DATE: 7/12/2022**

**SESSION: 15.00-17.00PM**

**DURATION: 2 HOURS.**

**INSTRUCTIONS**

- a) Answer QUESTION ONE and any other TWO questions**
- b) Show ALL your workings and be as NEAT as possible**
- c) Candidates are advised not to write on the question paper**
- d) Marks allocated to each question are shown at the end of the question.**

## QUESTION ONE

- a) Explain in detail WHY we have specialized financial institutions that offer financial services. Provide the Kenyan examples (10mks)
- b) Distinguish the roles of the capital markets Authority and the Nairobi Securities Exchange (5mks)
- c) Kisumo Company has proposed a rights offering. The stock currently sells at Kshs 40/= per share. Under the terms of the offer, stock holders will be allowed to buy one new share for every five that they own at a price of Kshs 25/- per share. What is the value of the right what is the ex- rights price (10mks)
- d) How does “a venture capitalist” identify his potential customer? Provide three names of such investors operating in the Kenyan market (5mks)

## QUESTION TWO

- a) Distinguish between operating and financial leases? Under financial losses method, what are the advantages of tax-oriented, leveraged and sale and lease back? (10mks)
- b) How does one explain the difference between an off balance sheet asset and off balance sheet liability? How do both affect return on total assets and equity? Is there an impact on value addition to the stakeholders? (10mks)

## QUESTION THREE

- a) State the basic processes in selling a new issue. What factors will influence a company to opt for stocks issue instead of debt financing? (10mks)
- c) What are the possible reasons that the price of stock drops on the announcement of a new equity issue? (5marks)
- d) What is the difference between a rights offer and a cash offer? (5mks)

## QUESTION FOUR

- a) What is a merger? Distinguish between merger and acquisitions (5mks)
- b) Explain how a merger and acquisitions input of cost reductions and tax gains (15mks)

## QUESTION FIVE

- a) How does one distinguish between an off-balance sheet asset and off-balance sheet liability? (5mks)
- b) A security analyst calculates the following ratios for two banks. How should the analyst

	Bank A	Bank B
Return on equity	22%	24%
Return on assets	2%	1.5%
Equity multiplier	11x	16x
Profit margin	15%	14%
Asset utilization	13%	11%
Spread	3%	3%
Interest expense ratio	35%	40%
Provision for loan ratio	1%	4%

- (a) Characterize the risk exposure (S) of the following financial (FI) transactions by choosing one or more of the following:
- credit risk
  - Interest rate risk
  - Off balance sheet risk
  - Foreign exchange risk
  - Sovereign risk
  - Technology risk
- 1) A bank finances a Kshs 100 million , six years , fixed rate commercial loan by selling one year certificates of deposit.
  - 2) An insurance company invests in policy premiums in along municipal bond portfolio.
  - 3) A French bank sells two years fixed rate notes to finance a two year fixed rate loan to a British entrepreneur.
  - 4) A Japanese bank acquires an Australian bank to facilitate closing operations.
  - 5) A mutual fund completely hedges its interest rate risk exposure using forward contingent contracts.
  - 6) A bond dealer uses his own equity to buy Mexican debt on a developing country bond market.
  - 7) A securities firm sells a package of mortgage loans as mortgage backed securities (10mks)