



# The Co-operative University of Kenya

**END OF SEMESTER EXAMINATION DECEMBER-2019**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE  
BUSINESS/COMMERCE**

**UNIT CODE: HCOB 2102/CMBC 2204**

**UNIT TITLE: PRINCIPLES & PRACTICE OF BANKING**

**DATE: DECEMBER, 2019**

**TIME:**

---

**INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

**QUESTION ONE**

- (a) Different between discounting and negotiation of a bill of exchange (4 marks)
- (b) Outline **SIX** measures that a bank can take to reduce its credit risk (6 marks)
- (c) Outline the advantages of remitting money abroad by SWIFT (4 marks)
- (d) Describe **THREE** forms of money used only as a store of value (3 marks)
- (e) Explain **FIVE** reasons for a bank to have adequate liquidity (5 marks)
- (f) Explain **FOUR** differences between commercial banks and DTMFs in the Kenya (8 marks)

**QUESTION TWO**

- (a) Most commercial banks in Kenya operate through an extensive branch network.  
Explain the disadvantages of this system (10 marks)
- (b) Explain “Contagion” and the measures that a central bank may take to control it. (10 marks)

**QUESTION THREE**

- (a) Explain who is a bank customer and the bank/customer relationship of principal/agent (10 marks)
- (b) Your clearing agent in Mombasa has asked you to pay Kshs 20 million today.  
Determine the appropriate bank’s payment method giving its advantages (10 marks)

**QUESTION FOUR**

- (a) Explain the measures that are being taken by commercial banks in Kenya to protect customers against the risks in E-banking (10 marks)
- (b) In the examination of a commercial bank’s statement of financial position, identify the most important/largest liability and explain why it is import (10 marks)

**QUESTION FIVE**

- (a) Outline the basic features/characteristics of negotiable instruments (10 marks)
- (b) The banking system started operations with Kshs 200 billion. The CRR was 5.5% and customer withdrawals were 25 billion
  - i) Determine the banking systems initial balance sheet and the final balance sheet at the end of the process (assume that there are no other assets liabilities) (6 marks)
  - ii) Show the effect of increasing CRR by 2% on the final balance sheet (4 marks)