INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - AUGUST 2025

PROGRAMME: BBA
YEAR/SEM: YEAR 3/SEMESTER 2
COURSE CODE: FIN 3205
NAME: FINANCIAL INSTITUTION AND MARKETS

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

QUESTION ONE IS COMPULSORY

Question 1:

Uganda Financial Services Corporation (UFSC)

Uganda Financial Services Corporation (UFSC) is a diversified, mid-sized financial conglomerate headquartered in Kampala, Uganda, with operations extending across the East African region. Since its inception in 2002, UFSC has positioned itself as a key player in Uganda's financial services landscape, leveraging the country's gradually improving macroeconomic environment, increasing urbanization, and a growing culture of savings and investment among the middle class and working population.UFSC operates a comprehensive suite of services that includes commercial banking, insurance (both life and non-life), investment banking, and microfinance, enabling it to serve a wide range of clients—from individuals and SMEs to large corporations and government entities. Its microfinance arm has played a pivotal role in extending financial access to underserved and rural communities, supporting Uganda's broader financial inclusion agenda. Aided by prudent management and regulatory compliance, UFSC has steadily increased its asset base, expanded its branch and agency network, and embraced financial technology to enhance customer service and reduce operating costs. Through digital banking platforms, mobile-based savings accounts, and agency banking models, UFSC has succeeded in reaching previously unbanked populations and improving financial literacy. In response to shifting global and

regional market dynamics, UFSC has, in recent years, strategically expanded into capital markets, foreign exchange (FOREX) trading, and derivative financial products. This diversification was aimed at broadening its income streams and managing exposure to emerging financial risks, such as interest rate volatility and currency fluctuations. The firm now actively participates in government and corporate bond markets, offers structured investment products, and utilizes derivatives like swaps and forward contracts to hedge market exposure. However, this strategic expansion has not come without challenges. The global financial landscape is rapidly evolving, with rising interest rates, heightened inflationary pressures, and tightening monetary policies by central banks worldwide, including the Bank of Uganda. These developments impact borrowing costs, investment returns, and credit demand, posing both opportunities and risks to UFSC's business model. Locally, intensifying competition, increased regulatory scrutiny, and the need to keep pace with technological innovations further test the firm's resilience and agility. As it moves forward, UFSC's success will depend on its ability to balance innovation with risk management, maintain regulatory compliance, and align its strategies with Uganda's development goals and the broader East African financial integration agenda

REQUIRED

---

a) How has UFSC's expansion into capital markets, FOREX trading, and derivative products contributed to its

financial diversification strategy? (5Marks)

b) Given the current trends of rising interest rates and inflationary pressures globally and locally ,what specific challenges might UFSC face in its lending and investment operations?

(10Marks)

c) Evaluate the effectiveness of UFSC's digital banking platforms and agency banking model in promoting financial inclusion .

(10Marks)

d)what are the implications of increased regulatory scrutiny and local competition for UFSC's operations and profitability .

(10Marks)

Question 2:

CASE STUDY: UGANDA CAPITAL HOLDINGS LTD. (UCHL)

Uganda Capital Holdings Ltd. (UCHL) is a leading diversified

financial services firm operating in Uganda's dynamic financial sector. Founded in 2010, UCHL has rapidly evolved into a major player, with strategic investments and operations spanning across commercial banking, investment banking, insurance services, mutual fund management, and pension fund administration. The company has significantly contributed to the growth and development of Uganda’s financial system by offering a wide array of financial products and services tailored to both retail and institutional clients. Listed on the Uganda Securities Exchange (USE), UCHL has leveraged public equity markets to fuel its expansion while maintaining transparency and investor confidence. Recently, the company ventured into digital financial services, launching robust online banking and mobile financial platforms to improve access, convenience, and efficiency for its clients. These initiatives align with the growing demand for technology-driven banking and the evolving digital landscape in Uganda. As part of its next phase of growth, UCHL is embarking on a major financial restructuring program. This initiative involves raising capital through both equity and debt instruments, diversifying its funding base, and reinforcing its capital adequacy to support future investments. Additionally, the company is prioritizing the enhancement of its enterprise-wide risk management framework, particularly in areas such as interest rate risk, credit risk, and technology risk. With a fast-changing regulatory and technological environment, the Board of Directors seeks to deepen their understanding of the financial ecosystem to make data-driven, strategic decisions that will ensure long-term sustainability, regulatory compliance, and competitive advantage for the

firm

REQUIRED

a)Discuss how UCHL's listing on the Uganda Securities Exchange (USE) impacts its ability to raise capital. (5Marks)

b) Analyze the potential technology risks that UCHL may face after launching online and mobile banking platforms. **(10Marks)**

c) Identify and describe determinants of interest rates that UCHL should monitor closely. **(10marks)**

d) Describe the role of financial markets in supporting UCHL's long-term strategic objective. **(15Marks)**

SECTION B

ANSWER ANYTHREE QUESTIONS

Question 1:

a)As financial analyst of ABB Ltd , discuss the key metrics you would use to evaluate the performance of financial institutions ,and how would you apply them to assess its effectiveness and inform future financial decisions.(8Marks)

b) The information in the table below relates to three different portfolio managers. study it carefully and answer the questions below;

Portfolio manager	Standard deviation	Expected return	Beta	weight
AB	23%	15%	1.55	0.35
DE	19%	17%	1.05	0.30
HG	15%	22%	1.29	0.35

Consider a market risk of 18.5%, market return of 13% and a coupon rate of 12% on government bonds

Required

Using the CAPM Model and key portfolio performance metrics evaluate the performance of each manager and advise on the best performing manager.

(12Marks)

Question 2:

a)Stock markets are characterized by efficiency, as was advanced by E. Fama about half a century ago but still remains relevant to date. Comment on the underlying assumptions of the concept of market efficiency in relation to Uganda securities exchange.

(10Marks)

b) Explain major criticisms or limitations of the Capital Asset Pricing Model (CAPM).(10marks)

Question 3:

Financial markets have been labelled vehicle for economic development for any economy whether developed or developing.

Required

a) As a student of financial Institutions and markets, explain using examples the role of Uganda securities exchange.

(10marks)

b)Discuss the demerits of the company being listed on the stock exchange in your country. (10marks)

Question 4:

a) Explain using examples the concept of the efficient market hypothesis. **(6marks)**

b) Discuss the implication of the efficient market hypothesis for investment policy as it applies to

i. Technical analysis, (7Marks)

ii. Fundamental analysis. (7Marks)

Question 5:

a)Examine the roles and functions of commercial banks, in Ugandans financial system.(10marks)

b) Discuss using examples the functions of foreign Exchange markets in your country. **(10marks)**

Question 6:

a) Discuss the Assumptions of the capital market theory. (10Marks)

b) Write short notes

a) spot market (2marks)

b) Lliquidity theory (2marks)

c) Loan theory (2marks)

d) Foreign Exchange Markets (2marks)

e) Derivative markets (2marks)

Question 7:

a) Discuss using examples the determinates of interest rates in Uganda’s financial

sector. (10marks)

b) Explain the role played by non - banking financial intermediaries in developing countries like Uganda**.(10Marks)**

Question 8:

a) Discuss using examples the functions of foreign Exchange Markets in your country. (10marks)

b) Discuss using examples methods used by companies to issue out shares to public. (10marks)

Question 9:

There are quite a number of properties that determine the attractiveness of financial assets to different classes of investors or issues. Using examples, discuss the properties of financial instruments. (20marks)

Question 10:

a) You are a financial expert in company X and

the CEO would like to know the flow of funds in the economy and the role played by company X limited in the flow of funds.

Required

How would you respond to the CEO clearly explaining the role played by other key players.(12Marks)

b) What are the key advantages of trading on a stock exchange compared to over-the-counter (OTC)markets for both investors and companies? (8Marks)

Question 11:

A company's current EPS is UgxSh 12. The firm pays out 40% of its earnings as dividend and has a growth rate of 6% p.a. which is expected to continue into perpetuity. The company has a beta value of 1.4 and the risk free rate is 10%. The expected market return is 15%.

Required:

a) Using CAPM, compute the expected return on the company's equity. (5Marks)

a) In response to public demand, several governments have legislated standards of conduct for financial institutions especially banks. The bank of Uganda issued the financial institutions Statute 1993, to help eliminate the conditions, which adversely affect the national public interest and the interest of investors. As a student of financial institutions and markets, explain why financial institutions reregulated.

(15marks)

Question 12:

a) Describe the different theories that explain how interest rates are determined in the market. (10 marks)

b) Examine the roles and functions of commercial banks, in Ugandans financial system. (10marks)