

The
Management
University
of Africa



Sponsored by the Kenya Institute of Management

UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 311: MANAGEMENT OF FINANCIAL INSTITUTIONS

DATE: 15TH APRIL 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

EAST AFRICA TRUST BANK (EATB)

East Africa Trust Bank (EATB) is a mid-sized commercial bank operating in Kenya with growing interests in Uganda and Tanzania. Over the past three years, EATB has aggressively expanded its SME lending portfolio to capture market share. However, this expansion has not been matched with adequate risk management controls. Recently, the Central Bank of Kenya (CBK) conducted a routine examination and raised concerns about the bank's deteriorating asset quality, declining liquidity ratios, and weak corporate governance structures.

The bank's latest financial highlights show:

Non-Performing Loans (NPLs) have risen to 12% of total loans.

The Capital Adequacy Ratio (CAR) is at 10.2%, just above the regulatory minimum of 10.5%.

The Liquidity Coverage Ratio (LCR) is 85%, below the required 100%.

Customer complaints related to online fraud and transaction errors have increased by 40% in the last year.

In response, the Board of Directors has appointed a new Chief Risk Officer and mandated a comprehensive review of the bank's risk management framework, focusing on credit, liquidity, and operational risks. The CBK has given EATB six months to implement corrective measures or face possible regulatory sanctions.

Required:

- (a) Identify and explain three major types of financial risks faced by EATB as indicated in the case. **(9 marks)**
- (b) Using the CAMELS rating system, analyze how the CBK would assess EATB's current condition and suggest two improvements under each of the first three CAMELS components. **(8 marks)**

- (c) Explain why capital adequacy is critical for EATB's stability and regulatory compliance. **(4 marks)**
- (d) Recommend two practical strategies EATB could adopt to improve its liquidity risk management. **(4 marks)**

QUESTION TWO

- (a) Discuss five core functions of commercial banks, explaining how each contributes to economic development. **(10 marks)**
- (b) Explain the role of the Central Bank of Kenya in regulating and supervising commercial banks. **(5 marks)**

QUESTION THREE

- (a) Define the term financial intermediation and explain four reasons why financial institutions are considered "special" in the economy. **(8 marks)**
- (b) Describe three types of non-depository financial institutions and their primary roles in the financial system. **(7 marks)**

QUESTION FOUR

- (a) Explain four key types of financial risks faced by financial institutions, providing an example of each. **(8 marks)**
- (b) Discuss how securitization can be used as a tool for risk management and liquidity enhancement in banking. **(7 marks)**

QUESTION FIVE

- (a) Outline the main components of Basel III and explain how each component aims to strengthen the resilience of the banking sector. **(10 marks)**
- (b) Define Value at Risk (VaR) and explain its importance in market risk management. **(5 marks)**

QUESTION SIX

- (a) Discuss three challenges faced by insurance companies in risk underwriting, giving a mitigating strategy for each of the challenge. **(6 marks)**
- (b) Explain the CARMELS analytical framework and how it is used to assess the performance and risk profile of insurance companies. **(9 marks)**