UNDERGRADUATE UNIVERSITY EXAMINATIONS

SCHOOL OF MANAGEMENT AND LEADERSHIP

DEGREE OF BACHELOR OF COMMERCE

FIN 311: MANAGEMENT OF FINANCIAL INSTITUTIONS

DATE: 27TH JULY 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:

Zenith Commercial Bank (ZCB), a mid-tier bank in Kenya, is facing a severe liquidity crunch following a sudden 15% surge in deposit withdrawals over the last quarter. The withdrawals are linked to a downturn in the tourism sector, a key industry for many of ZCB's corporate clients. The bank is struggling to meet its obligations as a large portion of its assets are tied up in long-term property development loans, which cannot be liquidated quickly without triggering a "fire sale" and incurring substantial losses.

Compounding ZCB's problems, an internal audit has uncovered a KSh 500 million fraud scheme. A senior credit manager bypassed the dual-control authorization system to issue unsecured loans to a shell company owned by a relative. The override was possible due to a software flaw in the new loan origination system that had been flagged by the IT team but was not escalated for remediation. The fraudulent loans are now classified as non-performing, and the Central Bank of Kenya (CBK) is considering placing the bank under increased supervisory watch, further damaging ZCB's public reputation.

Required:

a) From the case study, analyze **TWO** major types of financial risks that ZCB is facing.
(10 marks)

b) Propose appropriate risk management strategies that ZCB could implement to mitigate the impact of each of the risks identified in (a) above. **(10 marks)**

c) Briefly explain why financial institutions like ZCB are considered "special" in an economy.
(5 marks)

QUESTION TWO

a) Explain the **FOUR** primary functions of commercial banks. **(8 marks)**

b) Regulation is a key aspect of managing commercial banks. Discuss how the **THREE** forms of financial sector regulation help achieve the primary goal of maintaining financial stability. **(7 marks)**

QUESTION THREE

a) Discuss FOUR importance of digital banking on traditional "brick-and-mortar" banking models. **(8 marks)**

b) Explain four ways banks are using Artificial Intelligence (AI) and data analytics to enhance risk assessment and fraud detection. **(7marks)**

QUESTION FOUR

a) Describe the **SIX** components of the CAMELS rating system. **(6 marks)**

b) Explain how financial institutions help individual savers diversify their portfolio risks. **(9 marks)**

QUESTION FIVE

a) Define Value at Risk (VaR) and explain its importance as a tool for measuring market risk. **(5 marks)**

b) Discuss the evolution from BASEL I to BASEL III, highlighting the key improvements and focus areas of each accord. **(10 marks)**

QUESTION SIX

a) Discuss four emerging Trends Shaping the Future of Banking **(8 marks)**

b) Explain four importance of customer relationships for bank profitability **(7 marks)**