

041206T4BFN

BANKING AND FINANCE LEVEL 6

BUS/OS/BF/CR/10/6

Manage Bank Compliance

March/April 2026



**TVET CURRICULUM DEVELOPMENT, ASSESSMENT AND CERTIFICATION
COUNCIL (TVET CDACC)**

WRITTEN ASSESSMENT

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATE

1. This paper consists of **TWO** sections: **A** and **B**.
2. Answer **ALL** questions in section A.
3. Answer question **ELEVEN** (11) and any other **TWO** (2) questions in section B.
4. Marks for each question are indicated in the brackets.
5. Candidates are provided with a separate answer booklet
6. Do not write on the question paper.

This paper consists of FOUR (4) printed pages

**Candidates should check the question paper to ascertain that all
pages are printed as indicated and that no questions are missing.**

SECTION A (40 MARKS)

Answer ALL the questions in this section.

1. ABC bank intends to understand customer attributes before offering financial products. Identify FOUR benefits that will accrue to ABC bank for understanding customer attributes. (4 Marks)
2. Zeddy, a bank employee is tasked to categorize customers in order for the bank to manage compliance risks effectively. State FOUR categories of bank customers that Zeddy will provide based on risk profiling. (4 Marks)
3. Like many other banks, Polaris Bank has faced different forms of risks in the banking industry. List FOUR types of risks faced by Polaris Bank. (4 Marks)
4. David, a risk manager at a bank was recently contracted to implement various risk mitigation strategies. Name FOUR risk mitigation strategies that David can implement at the bank. (4 Marks)
5. Monitoring newly on-boarded bank customers is a bank's regulatory requirement. State FOUR reasons for monitoring bank's on-boarded customers. (4 Marks)
6. The Central Bank regulation is very instrumental in the banking sector. Identify FOUR objectives of Central Bank regulations in the banking sector. (4 Marks)
7. Bank regulators issue bank compliance standards which help to guide banking operations. List FOUR bank compliance standards issued by bank regulators. (4 Marks)
8. Dyke, a compliance officer at a bank is tasked to undertake various roles at the bank. Name FOUR roles that Dyke is tasked to undertake as a compliance officer. (4 Marks)
9. VIKA Bank depends on regulatory reports to supports oversight functions. State FOUR components of a VIKA bank's regulatory reports. (4 Marks)
10. Leading banks undertake correspondent banking because strengthens global banking operations. List FOUR services offered by leading banks through correspondent banking. (4 Marks)

SECTION B (60 MARKS)***Answer question ELEVEN (11) and Any other TWO (2) Questions in this Section***

11. AQW Bank, a commercial bank operating in Kenya has experienced rapid growth over the last five years as a result of aggressive expansion strategies and increased adoption of digital banking services. The bank has onboarded a large and diverse customer base across various regions, including retail customers, small businesses, corporates, and cross-border clients. This growth has attracted increased regulatory scrutiny from the Central Bank of Kenya, requiring the bank to strengthen its compliance framework to match its expanding risk profile.

Recent internal compliance reviews revealed significant weaknesses in customer profiling practices, including incomplete Know Your Customer (KYC) documentation, inadequate customer risk classification, and insufficient review of high-risk customers. The bank was also found to have delays in submitting regulatory reports, raising concerns about transparency and regulatory reporting obligations. Additionally, monitoring of correspondent banking relationships was inadequate, exposing the bank to potential money laundering and cross-border transaction risks.

AQW Bank plans to introduce new digital banking products to enhance customer convenience and competitiveness. However, these products require prior regulatory approval and strict compliance with applicable banking regulations. Failure to address the identified compliance gaps may expose the bank to financial penalties, reputational damage, regulatory sanctions, or even suspension of operations. In response, the board of directors has requested a comprehensive review of compliance practices to ensure alignment with regulatory requirements, risk management standards, and international best practices.

- a) Explain FIVE reasons for customer profiling at AQW Bank in line with bank compliance regulation. (10 Marks)
- b) Discuss THREE regulatory considerations that AQW Bank may take into account when introducing new banking products. (6 Marks)
- c) Explain TWO measures AQW Bank should adopt to strengthen its compliance framework. (4 Marks)

12. Downy Bank, a microfinance bank is required by law to submit regular and accurate reports to regulators to support effective supervision and financial stability. These reports cover financial performance, risk exposure, liquidity levels, and compliance status. Failure to submit accurate and timely reports may result in regulatory sanctions and increased supervisory intervention. As a result, Downy Bank must prioritize regulatory reporting as a key compliance obligation.

- a) Explain FIVE reasons for preparing regulatory reports at Downy Bank. (10 Marks)
- b) Apart from financial institutions like Downy Bank, describe FIVE other users of regulatory reports. (10 Marks)

13. KGG Bank operate within defined regulatory standards to promote stability, integrity, and accountability in the financial system. These standards guide licensing, capital requirements, disclosure, and governance practices. Regulators such as Central bank and Capital Market Authority enforce compliance to prevent bank failures and protect depositors. Adherence to regulatory principles by KGG Bank and other players is therefore essential for sustainable banking operations.

- a) Discuss FIVE principles of bank regulation that KGG Bank operates under. (10 Marks)
- b) Explain FIVE consequences that might be faced by KGG Bank for failure to comply with compliance standards. (10 Marks)

14. Kenyan financial market has a strong interbank relationship which support international trade, cross-border payments, and foreign exchange transactions through correspondent banking, enabling banks to operate beyond their domestic reach. However, interbank account settlements expose banks to financial and operational risks, making effective oversight essential to ensure smooth settlement and financial stability.

- a) Discuss FIVE benefits of correspondent banking to banks in Kenyan financial market. (10 Marks)
- b) Explain FIVE risks associated with interbank account settlements in Kenyan financial market. (10 Marks)