



CCP PART III SECTION 5

BANKING LAW AND PRACTICE

THURSDAY: 26 November 2020.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

**QUESTION ONE**

Zaza Ltd. lodged an application to the Central Bank in your country to operate as a Credit Reference Bureau in January 2020.

In March 2020, the Central Bank resolved not to grant Zaza Ltd. a licence to operate as such.

The management of Zaza Ltd. is furious and has engaged a compliance officer to follow up on why the Central Bank denied them the licence.

Zeze Lukela is the compliance officer and has approached you for advice as she intends to appeal to the Minister in charge of finance in your country.

- (a) Advise Zeze Lukela on the following:
- (i) The four circumstances under which the Minister may reverse the decision from the Central Bank. (4 marks)
  - (ii) Six activities or decisions that a credit reference bureau (CRB) must obtain prior approval from the Central Bank. (6 marks)
- (b) (i) Define the term “monetary policy”. (2 marks)
- (ii) Explain four tools of monetary policy used by the Central Bank in your country. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Differentiate between “money laundering” and “terrorism financing”. (4 marks)
- (b) A few years ago, customs service investigation exposed the widespread use of insurance products for laundering by international drug traffickers. The investigation revealed that some US\$ 80 million in drug money was laundered through life insurance policies.
- Required:**  
Highlight six red flags in money laundering and terrorism financing risks in the insurance industry. (6 marks)
- (c) With regard to customers’ accounts, describe three types of special customers. (6 marks)
- (d) Discuss four qualities that the Central Bank might consider in determining the professional and moral suitability of the person proposed for appointment as a director of a bank. (4 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) A bank’s lending manager’s task is the management of risk. To be successful at this he needs to be conversant with certain principles which can be best remembered by the mnemonic PARSER.

**Required:**

Discuss six principles of borrowing using the mnemonic PARSER.

(12 marks)

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- (b) The right of set off is a statutory right which enables a banker to combine two accounts in the name of one customer and to adjust the debit balance of one account with the credit balance of the other account.

With reference to the banker's right to set off:

- (i) Highlight four conditions necessary to exercise the right of set off. (4 marks)
- (ii) Describe four circumstances that will cause automatic set off. (4 marks)

(Total: 20 marks)

#### QUESTION FOUR

- (a) Imara Bank Limited wants to change the location of its place of business and has engaged you to prepare a guideline of legally effecting the change in location.

**Required:**

Analyse eight requirements that Imara Bank Limited must satisfy in order to change the location of their place of business. (8 marks)

- (b) With specific reference to consumer protection, assess four requirements to be satisfied by the bank whenever it is discharging its duty of fairness to a consumer. (8 marks)

- (c) State four duties of the Governor of the Central Bank in your country. (4 marks)

(Total: 20 marks)

#### QUESTION FIVE

- (a) Discuss four types of regulation models that might be used in the regulation and supervision of the banking sector in your country. (8 marks)

- (b) Differentiate between the following Accords:

(i) "Basel II" and "Basel III". (4 marks)

(ii) Analyse four weaknesses of Basel I Accord. (4 marks)

- (c) Explain the following terms in relation to the independence of the Central Bank:

(i) Institutional independence. (1 mark)

(ii) Good independence. (1 mark)

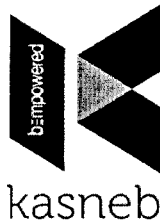
(iii) Financial independence. (1 mark)

(iv) Functional and operational independence. (1 mark)

(Total: 20 marks)

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**CCP PART III SECTION 5**  
**BANKING LAW AND PRACTICE**

**TUESDAY: 26 November 2019.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question.**

**QUESTION ONE**

- (a) Timiza DTM Limited is a microfinance institution licensed by the Central Bank of your country, to carry out deposit taking business.

Timiza DTM Limited recently appointed Zinzi Kesho as an officer in the legal and compliance unit.

As part of the orientation, Zinzi Kesho would like clarity on a few issues.

**Required:**

- (i) Explain to her in three ways the meaning of microfinance bank business. (6 marks)
- (ii) Discuss with Zinzi Kesho six circumstances under which the Central Bank might, by notice to Timiza DTM Limited, revoke their license. (6 marks)
- (b) Analyse four duties that a bank owes to its customers. (8 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) In the normal course of business, banks assess the credit risk of their borrowing customers.

With reference to the above statement:

- (i) Describe 5C's as relates to credit risk assessment. (5 marks)
- (ii) Highlight five challenges to successful Credit Risk Management. (5 marks)
- (b) Sifa Ogolla works for the Central Bank in your country. She has been given the assignment of constituting the Monetary Policy Committee.
- Advise Sifa Ogolla on composition of the Monetary Policy Committee and its operation. (10 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Customers are protected from any breach of rights that might arise by use of the powers of the credit reference bureaus (CRB).

Discuss three of these rights. (6 marks)

- (b) One of the supervisory approaches the Central Bank of Kenya (CBK) uses is the Risk based supervision.
- (i) Define the term "Risk based supervision". (2 marks)
- (ii) Discuss three advantages of risk based supervision. (6 marks)

- (c) Z & L Associates have been auditors of Hapa Bank Ltd. for three years. The Directors of Hapa Bank Ltd. would like to change their auditors.

Advise the management of Hapa Bank Ltd. as to the provisions governing change or removal of auditors. (6 marks)  
**(Total: 20 marks)**

**QUESTION FOUR**

- (a) (i) The County Governments which comprise the County Executives and County Assemblies maintain various accounts at the Central Bank. These accounts are used to facilitate receipt and payment of funds in accordance with the Public Finance Management Act.

With reference to the above statement, identify four types of accounts a county government would maintain with the Central Bank. (4 marks)

- (ii) Highlight three services that the Central Bank provides to Commercial Banks. (6 marks)
- (b) Describe five powers of the Central Bank where an auditor's report reveals that a bank conducts its business in a manner contrary to the provisions of the Banking Act. (5 marks)
- (c) Describe the procedure followed by an institution that intends to voluntarily liquidate itself. (5 marks)  
**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Bidii Bank Limited is on a mission to increase its network to reach people right where they are. The Managing Director of Bidii Bank Limited is determined to ensure people get their banking services in the estates.

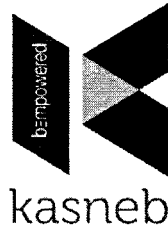
One of the strategies he has put in place is to provide for agent banking as a delivery channel for offering banking services in a number of estates in Nroba the biggest city in country X.

The Managing Director has called for a senior management meeting in order to chart the way forward. You have been assigned two very critical presentations in preparation for the meeting.

**Required:**

Prepare notes for the meeting that will help you make a presentation on the following matters:

- (i) Permissible banking services that an agent might provide. (4 marks)
- (ii) Prohibited activities that an agent shall not carryout. (4 marks)
- (iii) Mandatory provisions to be included in the contract between the bank and an agent. (6 marks)
- (b) Propose six specific measures that the Board of Directors might put in place to combat money laundering. (6 marks)  
**(Total: 20 marks)**
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CCP PART III SECTION 5

BANKING LAW AND PRACTICE

WEDNESDAY: 22 May 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

**QUESTION ONE**

- (a) You attended a seminar organised by the Institute of Credit Management of your country. The guest of honour in the seminar that was titled Efficient and Effective Financial Services, was the Governor of the Central Bank of your country.

The Governor made the following opening statement: "The core mandate of the Central Bank is to formulate the monetary policy to achieve and maintain price stability, promote a stable and sound financial system and ensure an effective and efficient payment, clearing and settlement system".

The Governor then went ahead to state that to fulfil this mandate, the Central Bank has six core functions.

**Required:**

Explain the six core functions as explained by the Governor of CBK. (12 marks)

- (b) With specific reference to the establishment and legal status of the Central Bank, state eight legal status of the bank that gives its legal personality. (8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) The Central Bank is empowered to grant authority to foreign institutions to open representative offices in Kenya. An applicant should complete an application form for authority to establish a representative office of a foreign bank. The application letter should be accompanied with the relevant supporting documentation.

**Required:**

Describe five of the supporting documentation that the applicant should attach. (10 marks)

- (b) (i) Summarise two circumstances under which approval might be granted for amalgamation and transfer of assets and liabilities. (4 marks)
- (ii) Analyse three consequences that occur upon the coming into effect of a transaction effecting the amalgamations and transfers of assets and liabilities to another person. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) An institution shall maintain such minimum holding of liquid assets as the Central Bank might from time to time determine.

With reference to the above statement, describe the seven components of the meaning of the term "liquid assets". (7 marks)

- (b) The main duty of an auditor shall be to audit and make a report of the annual statement of financial position and an income statement which are to be submitted to the Central Bank.

There are cases where the Central Bank might require an auditor to undertake additional duties to the main one.

**Required:**

Highlight three additional duties that might be required of an auditor to undertake. (3 marks)

- (c) Discuss the powers of the Central Bank under the following headings:
- (i) Powers of Central Bank to advise and direct an institution engaged in any practice likely to occasion a contravention of the Banking Act. (6 marks)
  - (ii) Powers upon audit or inspection report that reveals an institution conducts its business in a manner contrary to the provisions of the Banking Act. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) Attempts to launder money, finance terrorism, or conduct other illegal activities can emanate from many different sources. However, certain products, services, customers, entities and geographic locations may be more vulnerable.

With specific reference to customer risk, certain customers and entities might pose specific risks.

**Required:**

Suggest six possible customer risks that should be assessed for the purposes of identifying the inherent money laundering risk of an institution's client base and business relationship. (12 marks)

- (b) As cyber attacks evolve, the Central Bank expects the leadership of institutions to ensure a proactive approach to cyber security.

One of the globally accepted strategic measures has been the introduction of the role of the Chief Information Security Officer (CISO). This role aims at creating an organisational culture of shared cyber risk ownership.

**Required:**

- (i) Define the following terms:
- Cyber security. (1 mark)
  - Cyber crime. (1 mark)
- (ii) Explain three roles of the Chief Information Security Officer. (6 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) When a person opens a bank account with a particular bank, a relationship of debtor and creditor is created among other relationships. The bank in this case is considered the debtor. This relationship however, differs from similar relationships arising out of ordinary commercial debts in certain aspects.

With reference to the above statement, examine three ways in which the relationship is different. (6 marks)

- (b) The banker's obligation to honour cheques extinguishes on receipt of a garnishee order from the court. A garnishee order is issued in two parts.

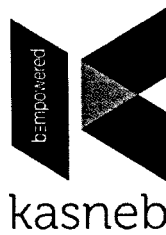
**Required:**

Summarise the two parts that a garnishee order consists of. (6 marks)

- (c) An illiterate person cannot read and write, he carries the risk of being conned by anyone, the bank must therefore take due precaution while making payments from accounts held by illiterate persons.

With reference to the above statement, identify three safeguards that banks should put in place for illiterate persons. (2 marks)

- (d) Explain three sources of credit information about borrowers available to banks. (6 marks)
- (Total: 20 marks)**
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CCP PART III SECTION 5

BANKING LAW AND PRACTICE

WEDNESDAY: 28 November 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

**QUESTION ONE**

- (a) Explain the term “banking business”. (3 marks)
- (b) If a bank becomes insolvent, the Central Bank may appoint the Deposit Insurance Corporation (formerly Deposit Protection Fund Board) to be the liquidator of the bank.

**Required:**

Analyse six powers of the Deposit Insurance Corporation while acting as a liquidator. (6 marks)

- (c) Anne Dudu holds a credit card from BenG Bank Ltd. She regularly carries out transactions using this card.

**Required:**

- (i) Highlight three parties involved in a credit card transaction. (3 marks)
- (ii) Discuss four elements in the agreement between Anne Dudu and BenG Bank Ltd. (8 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Explain the following terms in relation to the banker - customer relationship:
- (i) Banker’s lien. (2 marks)
- (ii) Duty of safe custody. (2 marks)
- (iii) Duty to honour cheques. (2 marks)
- (iv) Duty to collect cheques. (2 marks)
- (v) Duty of skill and care. (2 marks)
- (b) The Governor of the Central Bank is the Chief Executive Officer tasked with the responsibility of overseeing the management of the Bank.

**Required:**

Analyse five circumstances that might lead to termination of the Governor’s appointment. (5 marks)

- (c) Summarise five persons who might be disqualified from being appointed as auditors of a bank. (5 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) The managers of Jikaze Bank would like to shift their premises from town A to town B. The managers are aware that the Central Bank must approve this decision before they shift their premises.

**Required:**

Outline four conditions that Jikaze Bank should satisfy before such approval is granted. (4 marks)

- (b) Discuss two types of credit facilities in each of the following cases:
- (i) Funded facilities. (4 marks)
  - (ii) Non-funded facilities. (4 marks)
- (c) Evaluate four conditions that must be met before amalgamation or any arrangement for the transfer of assets in a bank. (8 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Tujijenge Microfinance Institution would like to apply for a licence to operate as a bank under the name TJ Bank Ltd.

**Required:**

Advise the management on four minimum capital requirements they should meet to operate as a bank. (8 marks)

- (b) Evaluate six objects of the Central Bank in your country. (12 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Discuss five money laundering offences. (10 marks)

- (b) Anthony, Benson and Charles operate a partnership under the trade name ABC Traders. They have been in operation for the past six months, but have not yet opened a bank account.

**Required:**

Advise the partners on the five requirements they must meet in order to open a partnership account in a bank. (10 marks)

**(Total: 20 marks)**

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CCP PART III SECTION 5  
BANKING LAW AND PRACTICE

WEDNESDAY: 23 May 2018.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

**QUESTION ONE**

- (a) Every institution seeking to voluntarily wind up its operations should provide certain information and documentation to the Central Bank in accordance with the Banking Act.

With reference to the above statement, describe the information and documentation that should be provided by the institution to the Central Bank. (10 marks)

- (b) Central banks in emerging economies generally have a broader mandate beyond the traditional mandates of monetary and financial stability.

In the context of the above statement, discuss the role of central bank in an emerging economy. (10 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) The banker's obligation to honour cheques extinguishes on receipt of a garnishee order from the court. Discuss the bank's procedure on receipt of garnishee order under the following pointers:

- (i) Where the order is served on the bank's head office. (2 marks)
- (ii) The customer's account balance is in debit. (2 marks)
- (iii) The garnishee order has stated the customer's name incorrectly. (2 marks)
- (iv) Customer holds a larger credit balance than the attached amount. (2 marks)
- (v) Information about the order to the customer. (2 marks)

- (b) Outline four cases in which the garnishee order is not binding upon the banker. (4 marks)

- (c) Explain six powers of the deposit protection fund manager. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) LNG Bank Ltd. has been operating in Kenya since the year 2014. The bank has made good progress and is desirous of opening a branch in Uganda and establishing a subsidiary in Rwanda.

Advise LNG Bank Ltd. on the procedure of setting up the branch in Uganda and establishing the subsidiary in Rwanda. (10 marks)

- (b) Summarise six requirements that the Central Bank might require to be satisfied in considering an application for a licence to operate as a bank. (6 marks)

- (c) Describe the minimum capital requirements that every institution registered by the Central Bank shall at all times maintain. (4 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Eric Marara was appointed as the auditor of TMC Bank Ltd. In the course of the prior year's audit, Eric Marara was satisfied that a criminal offence involving fraud had been committed by TMC Bank Ltd.'s senior management employees. Eric Marara immediately reported the matter to the Central Bank, a move that did not go down well with senior management.

TMC Bank Ltd. has now decided to remove Eric Marara, and replace him with another firm of auditors. Eric Marara is aggrieved as no approval was sought for his removal.

**Required:**

- (i) With reference to the above scenario, examine the legal principles governing change of auditors. (10 marks)
- (ii) Highlight the auditor's duty of confidence in an audit. (4 marks)
- (b) Describe the form of accounts to be prepared by a bank or financial institution. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Propose four measures that might be taken by an institution to ensure prudent lending. (8 marks)
- (b) With specific reference to prevention and control of money laundering.
- (i) Define the term "money laundering". (4 marks)
- (ii) Rael Waridi, a minor who is seventeen years of age would like to open a bank account in the bank you work in. She would like to deposit Sh.500,000. She visits the bank and finds you at the counter.
- Summarise four measures that you might take to establish the true identity of Rael Waridi. (4 marks)
- (c) Outline four steps that an institution intending to establish a correspondent banking relationship should undertake before establishing a business relationship. (4 marks)
- (Total: 20 marks)**
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CCP PART III SECTION 5  
BANKING LAW AND PRACTICE

WEDNESDAY: 29 November 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

**QUESTION ONE**

- (a) One of the roles of the Central Bank is the sole right to issue and withdraw notes and coins which constitute legal tender. In the course of withdrawing notes and coins, the Central Bank issues a notice to the public.

With reference to the above statement, describe three contents of the notice. (6 marks)

- (b) An entity intending to transact foreign exchange bureau business must obtain a licence from the Central Bank.

Identify two circumstances under which the Central Bank might revoke such a licence. (4 marks)

- (c) An effective global payment channel should be an integral part of global e-Commerce.

Suggest five measures that an organisation should consider before setting up a global payment channel. (10 marks)  
**(Total: 20 marks)**

**QUESTION TWO**

- (a) Harry Masumbuko held an account with Red Bank Ltd. until his demise early this month. Subsequent to this, Red Bank Ltd. received a notice of the death of Harry Masumbuko.

With reference to the above scenario, advise the actions the bank should take in the following instances:

(i) On presentation of cheques drawn on the account to third parties. (2 marks)

(ii) On receipt of cheques to be credited to the account. (2 marks)

(iii) On receipt of a garnishee order from a court of competent jurisdiction. (2 marks)

- (b) Discuss four obligations of the collecting bank. (8 marks)

- (c) Analyse three instances where a bank has an automatic right to sell off and combine a customer's accounts. (6 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) A bank might write off a loan when it considers such a loan irrecoverable.

**Required:**

Explain four instances where the bank might consider a loan irrecoverable. (4 marks)

- (b) A bank is required to appoint annually an auditor who must be approved by the Central Bank.

With reference to the above statement, identify five persons who are disqualified from being appointed as an auditor of a bank. (5 marks)

- (c) Assess five services that the Central Bank provides to commercial banks and microfinance institutions. (5 marks)

- (d) (i) Define the term "damaged currency". (2 marks)
  - (ii) Highlight four conditions that must be met for damaged currency to be replaced. (4 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Analyse six instances under which the Central Bank is empowered to intervene in the management of an institution it has licensed. (12 marks)
- (b) The Central Bank plays a vital role in licensing of institutions.

With reference to the above statement:

- (i) Summarise five matters the Central Bank might require to satisfy itself on while considering an application for a licence. (5 marks)
- (ii) A person shall only become a significant shareholder upon the Central Bank certifying the person as a fit and proper person to manage or control the institution.

With reference to the above statement, identify three instances when the Central Bank shall vet a significant shareholder. (3 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) (i) Assess six ways an institution shall automatically cease being a member of the deposit protection fund. (6 marks)
- (ii) Discuss the effects of the cessation in (a) (i) above to the member. (4 marks)

- (b) The board of an institution shall appoint a Board Credit Committee (BCC) to assist the board of directors in reviewing and overseeing the overall lending of the institution. The committee falls within the ambit of good corporate governance practices.

With reference to the above statement, examine six roles and responsibilities of the BCC. (6 marks)

- (c) One form of control that regulators in the banking sector might use is penalising violators of the rules and regulations that have been put in place.

With reference to the above statement, propose four purposes that penalty regulations should serve. (4 marks)

**(Total: 20 marks)**

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# KASNEB

## CCP PART III SECTION 5

### BANKING LAW AND PRACTICE

WEDNESDAY: 24 May 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

#### QUESTION ONE

(a) Describe the risk based supervisory approach to regulation. (2 marks)

(b) Summarise five functions of the Deposit Protection Fund Board in your country. (5 marks)

(c) One of the principal objects of the Central Bank is to act as a banker to other banks.

With reference to the above statement, highlight five functions that the Central Bank performs in this role. (5 marks)

(d) Timothy Rop has approached your bank for a personal loan. The loan is to be secured by a legal charge over a parcel of land that he owns jointly with his sister, Caroline Cherop.

**Required:**

Discuss the steps you would take in order to perfect the proposed security. (8 marks)

**(Total: 20 marks)**

#### QUESTION TWO

(a) You are the Branch Manager of Excel Commercial Bank. Faidika Ltd., a limited liability company, has approached you with an intention to open an account at your branch.

Outline five types of information that you would require from the company before opening the account. (5 marks)

(b) Many commercial banks have recently adopted internet banking for their customers.

Enumerate five services that a bank could avail to corporate customers via the internet. (5 marks)

(c) Unity Forex Limited, a foreign exchange dealer, has made an application to the Central Bank to renew its operating licence.

Discuss five factors that the Central Bank would take into consideration in determining whether or not to renew the licence. (10 marks)

**(Total: 20 marks)**

#### QUESTION THREE

(a) Anita Mizingo has opened a current account in your bank and has been issued with a cheque book.

With reference to the above statement, advise Anita Mizingo on two duties she owes to the bank. (4 marks)

(b) Amalgamation entails the combination of one or more entities into a new entity.

**Required:**

(i) Describe four conditions that are necessary for an amalgamation to be effected. (8 marks)

(ii) Explain four consequences of amalgamation to the amalgamating entities. (8 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain six reasons why an individual could be disqualified from being appointed as an auditor of an institution. (6 marks)
- (b) The Banking Act vests in the Central Bank powers to enable it discharge the functions of supervising and controlling institutions.

With reference to the above statement, discuss fourteen powers vested in the Central Bank. (14 marks)  
**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Agency banking has been adopted by many commercial banks as a way of offering banking services through intermediaries.

**Required:**

With reference to the above statement:

- (i) Summarise six types of information required by the Central Bank to process an application for an agency network. (6 marks)
- (ii) Describe six circumstances under which a bank could terminate an agency contract. (6 marks)
- (b) Juma Matatizo, a sole proprietor, passed on in April 2017. Prior to his demise, he held an account with Rich Commercial Bank.

As a graduate trainee of Rich Commercial Bank, advise the bank on the procedure that should be followed in terminating the relationship it had with Juma Matatizo. (8 marks)  
**(Total: 20 marks)**

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# KASNEB

## CCP PART III SECTION 5

### CREDIT MANAGEMENT IN THE FINANCIAL SECTOR

THURSDAY: 24 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

#### QUESTION ONE

- (a) Analyse three categories of loan portfolio delinquents. (6 marks)
- (b) Delinquency does not occur overnight but over a period of time.  
With reference to funded groups, describe six symptoms of delinquency in a portfolio of micro loans. (6 marks)
- (c) Assess four characteristics of a good collateral. (8 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) With reference to loan security, distinguish between the terms "pledge" and "hypothecation". (4 marks)
- (b) Discuss four inbuilt credit card security measures that ensure safe usage. (8 marks)
- (c) Explain four challenges of using real estate as a security for a mortgage. (8 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) To reduce vulnerability to operational risk, microfinance institutions (MFIs) develop policies and procedures that form the core of the organisation's internal control system which includes both preventive controls and detective controls.

**Required:**

With reference to the above statement:

- (i) Outline five preventative controls. (5 marks)
- (ii) Summarise five detective controls. (5 marks)
- (b) Using a flowchart, illustrate the six stages of credit card transaction authorisation processing. (6 marks)
- (c) Citing examples, distinguish between "affirmative covenant" and "negative covenant" in the context of lease agreements. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) The Five 'P' model is a credit risk assessment tool which is used by lenders to appraise a borrower's creditworthiness.  
With reference to the above statement, analyse the model as advanced by Fed (2004). (5 marks)
- (b) Grameen Bank was founded in 1976 by Nobel Laureate Professor Muhammad Yunus in Bangladesh. Its micro lending model has been adopted by more than 58 countries all over the world.  
In light of the above statement, examine five features of the working model of Grameen Bank. (5 marks)
- (c) Discuss three characteristics of credit markets in developing countries. (6 marks)
- (d) Reinbeer Ltd., a soft drinks manufacturer wishes to replace one of its bottling equipment. The cost of the equipment is 5 million shillings. The company has a high borrowing capacity and can borrow enough cash to acquire the equipment. The other alternative available is to lease the equipment.

**Required:**

As a credit management professional, advise the management of Reinbeer Ltd. whether to borrow and buy the equipment or to lease. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) In relation to credit risk, explain the term "credit value at risk (CVaR)". (2 marks)
- (b) Examine six characteristics of asset based lending. (6 marks)
- (c) Suggest six precautions that a lender should take into consideration before accepting life assurance policy as a security for a loan. (6 marks)
- (d) Summarise six items that should be included in a liquidity management policy for a co-operative society. (6 marks)

**(Total: 20 marks)**

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# KASNEB

## CCP PART III SECTION 5

### BANKING LAW AND PRACTICE

WEDNESDAY: 25 May 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

#### QUESTION ONE

Tony Lichuma obtained an overdraft from his bank, Jikope Bank Ltd. and made arrangements to repay the overdraft in instalments. After only three instalments, Tony Lichuma ceased to make further payments. Tony Lichuma later received a cheque from Ham Traders Ltd. whose account was also at Jikope Bank Ltd. Instead of depositing the cheque to his bank account with Jikope Bank Ltd; he endorsed the cheque to a customer of Mileje Bank Ltd. Jikope Bank Ltd. came to know about the cheque by virtue of the fact that Tony Lichuma was a customer in the bank.

When the cheque was presented for payment, the manager of Jikope Bank Ltd. rang an officer of Mileje Bank Ltd. to enquire as to the identity of the endorsee who turned out to be a book maker.

The manager then rang the employers of Tony Lichuma and enquired whether they were aware that Tony Lichuma was a gambler. As a consequence of the conversation, the employer refused to renew Tony Lichuma's contract of employment.

#### Required:

- (a) (i) Explain the duty that Jikope Bank Ltd. might have breached in the above scenario. (2 marks)
- (ii) Discuss four exceptions to the duty identified in (a)(i) above. (8 marks)
- (b) Given the interconnectedness of the banking industry and the reliance that the national and global economy hold on banks, it is important for regulatory authorities in the banking sector to maintain control over all standardised practices of these institutions.

With reference to the above statement, describe five objectives of these regulations.

(10 marks)

**(Total: 20 marks)**

#### QUESTION TWO

- (a) Tunaweza Bank Ltd. has been operating since January 2014. The bank has been very successful and is planning to open a second branch in another city within the same country of its operations.

The owners of Tunaweza Bank Ltd. are aware that no financial institution should open a branch or a new place of business without the approval of the Central Bank. They are however, uncertain of the matters that the Central Bank might require to be satisfied on before granting the approval.

#### Required:

Advise Tunaweza Bank Ltd. on the matters that the Central Bank might consider before granting approval to a bank to open a branch. (6 marks)

- (b) Discuss the key steps involved when applying for a licence to start a commercial bank, non-bank financial institution or a mortgage finance company. (14 marks)

**(Total: 20 marks)**

#### QUESTION THREE

- (a) (i) Explain two ways through which a bank could ensure that its financial statements are exhibited to the public. (4 marks)
- (ii) Give examples of three matters that the auditor of a bank should report immediately to the Central Bank upon discovery, in the course of performance of his duties. (6 marks)



- (b) One of the objects of the Central Bank is the supervision of efficient and effective payment, clearing and settlement systems.

With reference to the above statement, define the following terms:

- (i) Clearing. (2 marks)
- (ii) Payment system. (2 marks)
- (iii) Settlement. (2 marks)
- (c) Explain the legal status of the Central Bank in your country. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) As a measure of the “know your customer” principle, financial institutions go to great lengths to identify their customers.

With reference to the above statement:

- (i) Identify two official records that a body corporate could produce to establish its true identity. (2 marks)
- (ii) Highlight the particulars that the customer records maintained by a financial institution should contain. (8 marks)
- (b) Describe two ways of perfecting a security interest in real estates. (4 marks)
- (c) Propose six specific measures that the management of a financial institution should take to prevent money laundering. (6 marks)
- (Total: 20 marks)**

#### QUESTION FIVE

- (a) Describe the information and documentation that every financial institution seeking to voluntarily wind up its operations should provide to the Central Bank. (8 marks)
- (b) Identify four areas that a report prepared by the person who inspects financial institutions should cover. (4 marks)
- (c) The Central Bank has the power to advise and direct financial institutions in certain matters.

With reference to the above statement, summarise four matters in which the Central Bank might advise and direct financial institutions. (8 marks)

**(Total: 20 marks)**

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# KASNEB

## CCP PART III SECTION 5

### BANKING LAW AND PRACTICE

WEDNESDAY: 25 November 2015.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

#### QUESTION ONE

The school of monetary studies has invited you to make a presentation on the regulation of the banking sector in your country.

Prepare a summary of your presentation indicating the points you would cover under each of the following headings:

- (a) The role of regulation in the banking sector. (5 marks)
  - (b) Composition of the Monetary Policy Advisory Committee. (5 marks)
  - (c) Objects of the Central Bank. (10 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) Halima Keya and her group of women's "merry go round" would like to start a banking business.

Their next "merry go round" meeting is on Sunday, 29 November 2015 and she has invited you to give a talk on "prohibited banking business" during the meeting.

Compile the key points you would include in your talk on prohibited banking business. (10 marks)

- (b) Highlight four emerging trends in the banking industry of your country. (4 marks)
  - (c) Explain three restrictions imposed by the Central Bank on banks and financial institutions with respect to grant of advances and credit facilities. (6 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) Discuss six duties that a banker owes its customers. (12 marks)
  - (b) Describe four exceptions to non-disclosure of a bank customer's affairs. (8 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) In the context of banking, highlight four examples of liquid assets. (4 marks)
  - (b) Mary Voreza is the auditor of Tunaweza Bank Ltd. In the course of performance of her duties, she obtained sufficient evidence that there has been a serious breach of the regulations as prescribed by the Central Bank.  
  
With reference to the above statement, outline the instances that must be reported immediately by the auditor to the Central Bank. (8 marks)
  - (c) Describe four powers of the Central Bank where the audit or inspection report reveals that a banking institution has conducted its business in a manner contrary to the law. (4 marks)
  - (d) Highlight four circumstances under which the Central Bank might exercise its power to intervene in the management of a financial institution. (4 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) The principal objective of a financial reporting centre within a country is to assist in the identification of the proceeds of crime and the combating of money laundering.

With reference to the above statement, explain five powers and functions of the financial reporting centre. (10 marks)

- (b) Summarise four principal objectives of a know your customer (KYC) policy. (4 marks)
- (c) Discuss three types of risks that an effective know your customer policy could help to mitigate. (6 marks)

**(Total: 20 marks)**

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# KASNEB

## CCP PART III SECTION 5

### BANKING LAW AND PRACTICE

#### PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

#### QUESTION ONE

- (a) (i) Describe the procedure used by the Central Bank to licence commercial banks. (6 marks)
- (ii) State four circumstances under which the Central Bank of Kenya may recommend to the relevant Cabinet Secretary for revocation of a bank licence. (4 marks)
- (b) Explain methods used by the Central Bank to manage public debt. (4 marks)
- (c) Discuss three reasons why it is important for the Central Bank to supervise commercial banks. (6 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) Explain two techniques used by commercial banks to mitigate credit risks that they might be exposed to when granting loans. (2 marks)
- (b) State four minimum legal standards which a collateral document must meet. (8 marks)
- (c) (i) As part of its prudential guidelines, the Central Bank is involved in the appointment of auditors. Explain the procedure used in such appointments. (5 marks)
- (ii) State five reasons why the Central Bank might disqualify the appointment of a registered public accounting firm. (5 marks)
- (Total: 20 marks)**

#### QUESTION THREE

- (a) It is mandatory that all banks and financial institutions be members of a Deposit Insurance Corporation (DIC). Highlight five functions of DIC. (10 marks)
- (b) When opening a bank account for a customer, banks use pre-printed stationery which the customer must fill.
- (i) Explain three reasons of such information found in the application forms. (6 marks)
- (ii) Explain two reasons why banks might ask for referees. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) You are a manager of Green Bank in charge of the debt recovery. Your client Bidii Hardware Company Ltd. had defaulted on an overdraft facility secured by a floating charge over the assets of the company.
- (i) Apart from appointment of an administrative receiver, discuss other remedies you might consider in recovering the amount in arrears. (4 marks)
- (ii) Explain four duties of an administrative receiver. (8 marks)

- (b) The relationship between a banker and customer varies according to the type of transactions involved, although the principle duties and rights remain constant.

Explain four types of banker-customer relationships.

(8 marks)

(Total: 20 marks)

**QUESTION FIVE**

- (a) Mr and Mrs Bardi wish to buy shares in Cool Air Company, a profitable trading company which manufactures fans. Gold Bank agrees to lend Sh.3 million to purchase the company's shares provided that Mr and Mrs Bardi submit a satisfactory repayment and security proposal to the bank.

Mr and Mrs Bardi propose to the bank that they will give an assignment of a life policy on Mr Bardi's life (the policy being payable to Mrs Bardi on Mr Bardi's death). The policy is a 20 year term policy.

**Required:**

- (i) Discuss how a legal assignment of the policy is taken and the precautions the bank needs to take. (8 marks)
- (ii) Explain the importance to the bank of giving notice to the insurance company. (4 marks)
- (b) Explain circumstances when the Central Bank might intervene in the management of a bank and other financial institutions. (8 marks)

(Total: 20 marks)

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