

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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