



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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