

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: LAW OF CREDIT & SECURITIES (IOBM – AD315)**

**Date: Sunday, 13th May 2018**

**Time Allocated: 3 hours (08:00 – 11:00 hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

1. What are the **two** technical differences between joint liability and several liability as applied in guarantees? *(6 marks)*
2. Write short notes on the following:
3. Delivery order *(3 marks)*
4. Mates’s receipt  *(3 marks)*
5. Book debt  *(3 marks)* **(Total 15 marks)**

**QUESTION 2**

Premier Cotton Company has approached Kwathu Bank for a MK6 billion loan to facilitate the local purchases of cotton lint for export to China. A credit analyst at Kwathu Bank is concerned that the facility will exceed 25% of the bank’s core capital and hence a violation of theDirective on credit concentrations. Explain the Reserve Bank’s Directive on Credit Concentrations and its application to the requested credit facility.

**(Total 15 marks)**

**QUESTION 3**

Mike has applied for a credit facility agreement from XYZ Bank which makes him an offer of the facility including interest rate payable and repayment period. In order for this off to be valid, what are the essential elements of the offer that the Bank should take into account when drafting the offer?

**(Total 15 marks)**

**QUESTION 4**

The Reserve Bank of Malawi conducted an inspection of XYZ Bank Limited and it observed that XYZ bank was not properly classifying its assets in line with the Prudential Guidelines on Asset Quality. You have been asked to present the report o the Credit Committee of XYZ Bank’s board.

**Required**

Explain to the members the classification of the bank’s assets in line with the Prudential Guidelines on Asset Quality?

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

Mr. Wakanda has obtained a loan facility from Land Bank pledging his assets in form of a floating charge. However, Mr. Wakanda does not know under what circumstances will the charge crystallise. Please advise him on effective interventions required to crystallise the charge? **(Total 20 marks)**

**QUESTION 6**

Beckham and Victoria own a company together. The company has incurred some debts which are secured by the vehicle of Beckham and Victoria. However the Bank is not happy with the current state of the debt as it is growing due to failure of the company to repay the loan. The Bank has asked Beckham that they need a loan over Beckham and Victoria’s house. Victoria is not willing to sign the loan documents but Beckham convinces her to sign the documents and she does. Two years later the Bank seizes the house and advertises it for sale. Victoria has applied for an order where she wants the charge over the property nullified as she was unduly influenced to enter into the contract. Advise the Bank if indeed this is a valid ground for cancelling the security. In your response indicate in which circumstances will the courts cancel security documentation on the grounds of undue influence.

**(Total 20 marks)**

**QUESTION 7**

Letters of credit are governed by two fundamental principles, namely (a) the doctrine of strict compliance; and (b) the autonomy of the credit.

**Required**

With reference to relevant cases, described what these principles mean and how they apply.

**(Total 20 marks)**

**QUESTION 8**

Explain how credit contracts can be discharged by the following:

1. By breach *(5 marks)*
2. By performance *(5 marks)*
3. By agreement *(5 marks)*
4. By performance *(5 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**