

CF02

Operations of Financial Institutions

10 OCTOBER 2000

1. Time allowed : Three (3) hours
2. Total number of questions : Five (5) questions
3. Number of questions to be answered : Four (4) questions
Part A : Compulsory questions [40 marks]
Part B : Three (3) questions [20 marks each]
4. Show details of workings, where appropriate. Silent, non-programmable calculators may be used.
5. Begin each answer to a new question on a fresh page.
6. Answer **all** questions in **English**.

PART A

COMPULSORY QUESTION


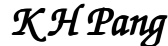
1. (a) Bank Negara Malaysia is the central bank of Malaysia. Briefly outline its **four** functions as the central bank. [8]
- (b) **One** of the 5 Cs in credit evaluation is the “capacity” of the potential borrower. Describe the factors to consider in assessing the “capacity” of the potential borrower. [8]
- (c) You noted the following foreign exchange quotations in the newspaper:
- USD1 = MYR3.7995/8005
USD1 = SGD1.7397/7407
- Calculate the Singapore dollar (SGD) offer and bid rates in Malaysian Ringgit (MYR) terms (i.e. 1 SGD = ? MYR). [8]
- (d) In international trade, Article 13 of ICC Uniform Customs and Practice for Documentary Credits (UCP500) states that “Banks must examine all documents stipulated in the Credit with reasonable care, to ascertain whether or not they appear, on their face, to be in compliance with the terms and conditions of the Credit”.
- Upon checking the documents submitted by United Exporters Sdn Bhd, a customer of your bank, you find that the documents do not comply with the requirements as stipulated in the credit. Advise United Exporters Sdn Bhd, on the options available due to these discrepancies. [8]
- (e) Project financing under Al-Mudharabah principle is **one** of the financing facilities available under Islamic banking. Briefly describe how this facility works. [8]
- (Total:40 marks)

PART B

ANSWER THREE (3) QUESTIONS ONLY

2. Under section 97 of the Banking and Financial Institutions Act 1989, bankers have to maintain the secrecy of their customers’ information. However, under section 99 of the same Act, bankers are permitted to disclose information regarding their customers.
- What are the instances under which disclosures are permitted? (Total:20 marks)
3. (a) Before granting a hire-purchase facility to a hirer, the owner may require the hirer to provide **one** or more acceptable guarantors.
- What are the obligations and rights of the guarantors? [12]
- (b) Hokitika Sdn Bhd wants to purchase a new machine costing RM100,000 and would like to obtain a leasing facility from your company. Assuming the lease period is **five** years and the interest rate is 8% per annum, calculate the monthly lease rental if it is:
- (i) a full pay-out lease [4]
- (ii) a residual value lease and the residual value is RM20,000 and the interest on the residual value is 10% per annum. [4]
- (Total:20 marks)

4. (a) What is a bank guarantee? [4]
 (b) State the **three** general features of a bank guarantee. [6]
 (c) Briefly describe **four** types of bank guarantees. [10]
 (Total:20 marks)
5. (a) You received the following cheque:

 MATANG BANK BERHAD (1234-K) Kuala Rejang, Perak	33-119833 STAMP DUTY PAID
BAYAR PAY TO <u>LYNDON JEE</u> RINGGIT MALAYSIA <u>NINE THOUSAND ONLY</u>	<u>September 21, 2000</u> ATAU PEMBAWA OR BEARER <div style="border: 1px solid black; padding: 2px; display: inline-block; margin-top: 10px;"> RM 9,000.00 </div>
K H PANG <small>JANGAN DITANDATANGANI DI BAWAH GARISAN INI NO SIGNATURE BELOW THIS LINE</small>	
▪ 154876 ▪ 33▪▪119833 ▪ 1003876945 ⁵ ▪ 01 900000	

With reference to the above cheque, answer the following questions:

- (i) Name the drawee bank. [1]
 (ii) Name the branch of the drawee bank. [1]
 (iii) What is the date of the cheque? [1]
 (iv) Who is the payee? [1]
 (v) Who is the drawer? [1]
 (vi) What is the amount of the cheque in words? [1]
 (vii) What is the amount of the cheque in figures? [1]
 (viii) What is the cheque number? [1]
 (ix) Is the cheque crossed? [1]
 (x) Is this a bearer or an order cheque? [1]
- (b) What is the difference between an ante-dated cheque and a post-dated cheque? Give an example when explaining each type of cheque. [6]
 (c) How do you cross a cheque? [2]
 (d) Name **two** persons authorised to cross a cheque. [2]
 (Total:20 marks)

OUTLINE ANSWERS

PART A

Question 1

Candidates were unable to perform well in the compulsory question, which covered various areas, such as the functions of Bank Negara Malaysia (BNM), 5 Cs in credit evaluation, a simple foreign exchange calculation, international trade and Islamic Banking. Most candidates were able to identify the factors or functions that were being assessed, but were unable to provide further explanation when required. The calculation on the offer and bid rates of the Singapore dollar to the Malaysian Ringgit was one of the easier questions in this paper. However, most candidates answered the question wrongly.

1. (a) Main functions of Bank Negara Malaysia:
 - (i) Issues and manages the local currency to safeguard the value of the currency.
 - (ii) Acts as the Government's banker and advisor.
 - (iii) Regulates the liquidity in the financial markets so as to promote a stable monetary and financial structure.
 - (iv) Acts as banker to all banks. It also acts as lender of last resort.
- (b) Factors to consider in evaluating the "capacity" of a borrower:
 - (i) Past earnings - indicative of the success of the borrower.
 - (ii) Future earnings - estimating his future earnings to pay his/her borrowings.
 - (iii) Past record - indicative of his/her ability to survive hard times and economic downturn.
 - (iv) Ability to meet obligation - Based on present/future earnings can he/she meet his/her obligations. What if present/future earnings is increased/decreased by 10%/20%?
- (c)
 - (i) Bid Rate $3.7995/1.7407 = 2.1827$
 - (ii) Offer Rate $3.8005/1.7397 = 2.1846$
- (d) Options available for United Exporters are:
 - (i) Rectify the errors.
 - (ii) Ask the buyer to accept the discrepancies and amend the credit accordingly.
 - (iii) Ask the banker to accept the documents and send them on a collection basis to the issuing bank.
 - (iv) Ask the banker to negotiate the documents "Under Recourse" or "Against Indemnity".
- (e) Project financing under Al-Mudharabah:
 - (i) Bank becomes the provider of capital.
 - (ii) Bank provides 100% of the capital.
 - (iii) Customer becomes entrepreneur.
 - (iv) Customer manages the project without interference from the bank.
 - (v) Bank and customer negotiates and agrees on profit sharing.
 - (vi) Loss fully borne by the bank.

PART B

Question 2

This is a past-year question on disclosure of customer information. However, only a few candidates that attempted this question managed to obtain the passing mark. Candidates failed to provide explanations and illustrations on the instances that such disclosures are permitted as required by the question. Hence, the answers provided were only mediocre.

2. Under Section 99 of BAFIA, disclosure is allowed under the following instances:
 - (i) The customer or his representative has given permission in writing to disclose.

- (ii) The customer is declared a bankrupt, or, if the customer is a corporation, the corporation is being wound up, in Malaysia or in any country, territory or place outside Malaysia.
- (iii) The information is required by a party in a bona fide commercial transaction to assess the credit worthiness of the customer, provided the information required is of a general nature.
- (iv) In the course of civil proceeding between (a) the bank and its customer or his guarantor, relating to the customer's transaction with the bank; or (b) the bank and two or more parties making adverse claims to money in a customer's account.
- (v) Where the bank has been served a garnishee order attaching monies in the account of the customer.
- (vi) The information is required by the head office of the bank.
- (vii) The disclosure is authorised by Bank Negara Malaysia or the Federal Law.

Question 3

This two-part question on hire-purchase was one of the unpopular questions. Many of the candidates that attempted this question managed to answer the second part, which required them to calculate the monthly lease rental but failed to answer the first part which was a direct factual question pertaining to the obligations and rights of guarantors.

3. (a) Guarantor's obligations:
- (i) Obligation equivalent to that of the hirer.
 - (ii) Obligation subsists not only when the goods are in the possession of the hirer but also when the goods have been repossessed by the owner.

Guarantor's rights:

- (i) where the guarantor has paid to the owner the amount due from the hirer, the guarantor may indemnify himself by:
 - suing the hirer in the name of the owner for any breach of the hirer's obligation under the hire-purchase agreement
 - insisting on the transfer to himself any securities that the owner had taken from the hirer.
- (ii) If the owner makes any claim against the guarantor, the guarantor is entitled to avail himself of any set-off or counter claim that the hirer has against the owner.
- (iii) The guarantor can sue the hirer in his own name for any claim made by the owner on the guarantee.
- (iv) The guarantor can apply to the Court for an order compelling the hirer to pay the instalment to the owner, as and when the instalment falls due.

- (b) Monthly lease rental:
Full pay-out lease

$$= \frac{\text{RM}100,000 + (\text{RM}100,000 \times 8\% \times 5)}{60}$$

$$= \text{RM}2,333.33$$

Residual lease

$$= \frac{\text{RM}80,000 + (\text{RM}80,000 \times 8\% \times 5) + (\text{RM}20,000 \times 10\% \times 5)}{60}$$

$$= \text{RM}2,033.33$$

Question 4

Only a few candidates managed to pass this question on bank guarantees. However, answers provided were only marginally satisfactory. Most candidates lost marks when they failed to substantiate their points with the appropriate examples.

4. (a) A bank guarantee is an irrevocable obligation of a bank to pay a sum of money in the event of a non-performance of a contract by a third party. The guarantee is a separate obligation, independent of the principal debt or the contractual relationship between the creditor and the principal debtor.

- (b) The features of a bank guarantee are:
- (i) the guarantee should state the sum guaranteed;
 - (ii) the guarantee should state the period of the guarantee; and
 - (iii) the guarantee should name the beneficiary of the guarantee.
- (c) Four types of bank guarantees:
- (i) Bid or tender guarantee - guarantee required to enable the customer to tender for a contract in lieu of a cash deposit.
 - (ii) Performance guarantee - guarantees that the contractor will satisfactorily perform his contract with the principal.
 - (iii) Credit guarantee - guarantees that the bank's customer will pay his suppliers for the supply of goods on credit.
 - (iv) Guarantee for payment of cheque - guarantees that the cheques issued by the bank's customer will be honoured by the bank.

Question 5

All the candidates attempted this four-part question pertaining to cheques. Part (a) was a direct question on a sample cheque. Several candidates provided good answers for parts (b), (c) and (d) but there were also a few that answered poorly, especially for part (b) which required candidates to differentiate between an ante-dated cheque and post-dated cheque.

5. (a)
- | | |
|--------------------------|---------------------------------|
| (i) Matang Bank Berhad | (vi) Ringgit Nine thousand only |
| (ii) Kuala Rejang, Perak | (vii) RM9,000-00 |
| (iii) September 21, 2000 | (viii) 154876 |
| (iv) Lyndon Jee | (ix) No |
| (v) K H Pang | (x) Bearer |
- (b) An ante-dated cheque is one that bears a date before the date of issue. For example, the cheque was issued on September 12, 2000 but dated August 12, 2000. Such a cheque, if presented would be honoured.
- A post-dated cheque is one which bears a future date. For example, John draws a cheque on September 12, 2000 but dates the cheque October 12, 2000. Such a cheque, if presented before due date would not be honoured. It will be returned, and the payee is requested to present the cheque on the aforesaid date.
- (c) A cheque is said to be crossed when it bears across its face two parallel transverse line with or without the following:
- The words "AND COMPANY" or "& CO"
 - The words "Not Negotiable"
 - The name of the banker with or without the words "Not Negotiable".
- The crossing can be at the centre of the cheque or at the left hand corner of the cheque.
- (d) A cheque can be crossed by:
- The drawer of the cheque.
 - The holder of the cheque, either general or specific.