

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF COMMERCE
DEPARTMENT OF BANKING
BACHELOR OF COMMERCE HONOURS DEGREE IN BANKING**

**BANK LENDING AND CREDIT RISK MANAGEMENT II
[CBA 4206]**

FINAL EXAMINATION

JUNE 2010

TIME 3 HOURS

INSTRUCTIONS TO CANDIDATES

- Answer any **FOUR (4)** questions.
- Start the answer to each full question on a fresh page of the answer sheet.
- Indicate on your answer booklet whether you are in the conventional or parallel programme.
- Show all workings
- Questions may be written in any order, but must be legibly numbered.

INFORMATION FOR CANDIDATES

The paper contains six (6) questions.

All questions carry equal marks [25 marks].

The businesses in this question paper are intended to be fictitious.

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[Turn Over]

QUESTION 1

- a) i) Define credit risk. [2 marks]
ii) State and write brief notes on any three credit events. [3 marks]
- b) You have been appointed the Risk Manager for Goldhand Bank Limited that has a loan portfolio of USD19 million as given below;

Loan Portfolio

	Rating	Exposure Amount (USD)
Cooldown Private Limited	A+	5,000,000
VSix Private Limited	BBB+	3,000,000
Roundface Private Limited	-	1,000,000
Richfist Bank Limited*	AA-	10,000,000
Total Amount		19,000,000

*A financial institution

Ratings by Phantom Ratings Agency

Exposure	AAA to AA-	A+ to A-	BBB+ to BBB-	BBB+ to BB-	BELOW B-	UNRATED
Private Corporate	20%	50%	100%	100%	150%	100%
Financial Institutions	0%	20%	50%	100%	150%	100%
Parastatals	20%	50%	100%	100%	150%	100%

Suppose a specific loss provision of USD3 million over the portfolio has been made. You are required to calculate the capital charge for credit risk under;

- a) Base I Accord [5 marks]
b) Basel II Accord, Standardized Approach [15 marks]

TOTAL

[25 MARKS]

QUESTION 2

- a) With the aid of practical examples, state the operational loss event types according to Basel II Accord [10 marks]
- b) You have been appointed the Risk Manager for Monkeyface Bank Limited and you are given the following financial information;

Business unit	Gross Income (USD)		
	Year 2007	Year 2008	Year 2009
Corporate Finance	50,000,000	60,000,000	48,000,000
Trading and Sales	20,000,000	24,000,000	19,200,000
Retail Banking	10,000,000	12,000,000	9,600,000
Commercial Banking	25,000,000	30,000,000	24,000,000
Payments and Settlements	1,000,000	1,200,000	960,000
Agency Services	3,000,000	3,600,000	2,880,000
Retail Brokerage	500,000	600,000	480,000
Asset Management	200,000	250,000	300,00

You are required to calculate the capital charge for operational risk under;

- i) Basel II Accord, Basic Indicator Approach [5 marks]
- ii) Base II Accord, Standardized Approach [10 marks]

TOTAL

[25 MARKS]

QUESTION 3

- a) Suppose you have a portfolio made up of the following independent assets as at 31 December 2009;

Client Name	Rating	Credit Limit (USD)	Utilised Amount (USD)
ABC Ltd	AAA	10,000,000	10,000,000
DEF Ltd	BB	15,000,000	7,000,000
GHI Ltd	CCC	5,000,000	5,000,000
JKL Ltd	Default	4,000,000	2,000,000
MNO Ltd	BB	10,000,000	10,000,000
Total		44,000,000	34,000,000

Ratings and risk components

S & P Rating	Default Frequency (PD)	Recovery Rates
AAA	1%	90%
AA	2%	80%
A	3%	75%
BBB	10%	70%
BB	20%	50%
B	30%	40%
CCC	50%	20%
DEFAULT	100%	10%

You are required to calculate the expected credit loss of your portfolio as at 31 December 2009. [15 marks]

- b) In as much as credit risk transfer instruments assist in moving risk across the financial sector, explain why there have been some sections that are against their use. [10 marks]

TOTAL

[25 MARKS]

QUESTION 4

- a) What are the business benefits that accrue to the bank through the use of credit scoring? [10 marks]
- b) State and explain any five methods used to enhance credit quality of Asset-Backed Securities in securitisation. [15 marks]

TOTAL

[25 MARKS]

QUESTION 5

- a) You are given the following financial information regarding TLM (Private) Limited;

	USD
Cost of Sales	2,000,000
Gross Profit	2,000,000
Interest	200,000
Tax	400,000
Net income after tax	1,000,000
Fixed Assets	13,850,000
Current Assets	9,500,000
Market Value of Equity	3,900,000
Book Value of Debt	5,000,000
Market value of Debt	8,000,000
current liabilities	9,600,000
Retained Earnings	2,350,000

You are required to predict whether TLM (Private) Limited is subject to financial distress or not. [15 marks]

- b) Define Bank Capital and explain the importance of sufficient capital for a bank [10 marks]

TOTAL

[25 MARKS]

QUESTION 6

a) Define Enterprise-Wide Risk Management framework and discuss why it should be adopted by financial institutions particularly banks [10 marks]

b) State and briefly discuss any four portfolio forecasting techniques [15 marks]

TOTAL

[25 MARKS]