

**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]**

**SUPPLEMENTARY EXAMINATION**

**AUGUST 2010**

**TIME: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES**

- Answer any **FOUR (4)** questions
- Start the answer to each 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) Distinguish securitisation from synthetic securitisation. [5 marks]
- b) "Credit risk transfer instruments are a necessary evil". How far true is this assertion? [20 marks]

**TOTAL [25 MARKS]**

### **QUESTION 2**

Write a detailed account of the three pillars of the Basel II Accord. [25 marks]

**TOTAL [25 MARKS]**

### **QUESTION 3**

You have been appointed the Risk Manager for Timeline Bank Limited and you are given the following financial information;

<b>Business unit</b>	<b>Gross Income (ZAR)</b>		
	<b>Year 2000</b>	<b>Year 2001</b>	<b>Year 2002</b>
Corporate Finance	60,000,000	90,000,000	58,000,000
Trading and Sales	30,000,000	24,000,000	19,200,000
Retail Banking	10,000,000	12,000,000	9,600,000
Commercial Banking	15,000,000	22,000,000	21,000,000
Payments and Settlements	2,000,000	3,200,000	800,000
Agency Services	4,000,000	2,600,000	1,880,000
Retail Brokerage	1,500,000	1,600,000	1,480,000
Asset Management	100,000	350,000	500,000

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 [20 marks]

**TOTAL [25 MARKS]**

**QUESTION 4**

- a) Differentiate economic capital from regulatory capital. [5 marks]
- b) Justify the importance of grading loans in a financial institution [20 marks]

**TOTAL [25 MARKS]**

**QUESTION 5**

- a) Define operational risk [3 marks]
- b) Outline the key attributes of a good operational risk management system in a financial institution [22 marks]

**TOTAL [25 MARKS]**

**QUESTION 6**

- a) Discuss the pitfalls of credit scoring [16 marks]
- b) Identify and write brief notes on any three types of credit scoring models [9 marks]

**TOTAL [25 MARKS]**

