

KASNEB

CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 27 May 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

QUESTION ONE

- (a) Franchising is considered as an alternative source of funds especially for entities entering into industries with well established brands.

With reference to the above statement, describe five advantages of franchising. (5 marks)

- (b) Explain five challenges faced by not-for-profit making organisations worth noting by lenders. (10 marks)

- (c) Lending to groups of companies can be a daunting task especially in dealing with the unconsolidated subsidiaries.

As a credit analyst, examine five reasons you would expect to be the basis of non-consolidation of a subsidiary in the group's financial reports. (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Distinguish between the following terms as used in financial statements analysis:

(i) "Trend analysis" and "ratio analysis". (2 marks)

(ii) "Vertical analysis" and "horizontal analysis". (2 marks)

- (b) Fore-Limb Ltd., one of your regular clients at Biashara Bank has provided the following information for the year ended 31 March 2016 to the bank for consideration of a loan proposal:

| | Sh. | | Sh. |
|---|-----------|---------------------------------|---------|
| Sales | 1,500,000 | Administration expenses: | |
| Purchases | 966,750 | Salaries | 81,000 |
| Opening inventory | 228,750 | Rent | 8,100 |
| Closing inventory | 295,500 | Stationery and postage | 7,500 |
| Sales returns | 60,000 | Depreciation | 27,900 |
| Selling and Distribution expenses: | | Other charges | 49,500 |
| Salaries | 45,900 | Provision for taxation | 120,000 |
| Advertising | 14,100 | Non-operating income: | |
| Travelling | 6,000 | Dividends on shares | 27,000 |
| Non-operating expenses: | | Capital gains | 9,000 |
| Loss on sale of assets | 12,000 | | |

Required:

As the senior credit analyst at Biashara Bank, re-arrange the above information in a format suitable for credit analysis. (6 marks)

- (c) Prudential guidelines to lending in financial institutions have provided minimum capital requirements and ratios to be observed by lenders in the industry.

However, there are circumstances under which a financial institution may be required to maintain higher ratios by the regulator.

Required:

Propose five circumstances under which the regulator in your country could require a financial institution to maintain higher capital ratio than the required minimum. (10 marks)

(Total: 20 marks)

CP62 Page 1

Out of 2

QUESTION THREE

- (a) Other than the economic potential of a country, evaluate two internal indicators and four external indicators that would be of interest to a credit manager when carrying out country risk assessment. (12 marks)
- (b) In the recent past, corporate customers who required high amount of loans have contributed to growth of syndicated loans in the lending industry.

With reference to the above statement, explain four responsibilities of a lead bank in a syndicated loan. (4 marks)

- (c) Highlight four indicators of overtrading in a corporate entity. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) (i) Evaluate three approaches used in the valuation of real estate property. (3 marks)
- (ii) Highlight areas of application for each of the identified approaches in (a)(i) above. (3 marks)
- (b) Describe the LAPP model and its methodology of credit analysis. (4 marks)
- (c) Discuss three forms of predatory lending. (6 marks)
- (d) Explain four reasons why lenders must appraise the business strategy of a corporate borrower. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) (i) Distinguish between a “financial crisis” and a “credit crunch”. (4 marks)
- (ii) Outline three causes of a credit crunch. (3 marks)
- (b) Describe four standards of professional conduct for a credit analyst. (8 marks)
- (c) Propose five events that constitute default for a loan agreement. (5 marks)

(Total: 20 marks)

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