

kasneb

CCP PART III SECTION 6

CORPORATE LENDING

MONDAY: 30 November 2020.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Outline six factors that could affect the choice of source of finance for a partnership business. (6 marks)
- (b) Identify three risks associated with each of the following generic strategies:
- (i) Cost leadership strategy. (3 marks)
- (ii) Focus business strategy. (3 marks)
- (c) Propose four banking lending practices that could be considered unethical in corporate lending. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Identify six importance of collateral to the lender. (6 marks)
- (b) Evaluate four benefits of cash-flow based lending. (8 marks)
- (c) Describe three benefits of using the expected default frequency (EDF) measure in credit evaluation processes. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Propose five areas that should be covered in the process of loan review. (5 marks)
- (b) Distinguish between the following terms:
- (i) "Banking book" and "trading book". (4 marks)
- (ii) "Capital adequacy" and "regulatory capital requirement". (4 marks)
- (c) Discuss four contents of a property valuation report, which could be used as collateral for a loan by a credit manager. (4 marks)
- (d) Summarise three objectives of good corporate governance in an organisation. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the following terms as used in corporate lending:
- (i) Event after the reporting period. (2 marks)
- (ii) Adjusting event. (2 marks)
- (iii) Non-adjusting event. (2 marks)
- (b) Examine six circumstances under which a license issued to a credit reference bureau may be suspended or revoked by the regulator. (6 marks)
- (c) Financial statements are very key when looking at a company's borrowing proposition.

With reference to the above statement, propose four reasons why a credit analyst must use financial statements when appraising a corporate client for a loan facility. (8 marks)

(Total: 20 marks)

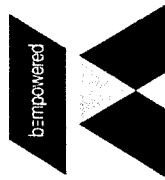
QUESTION FIVE

- (a) Explain four disadvantages of credit rating. (8 marks)
- (b) Examine three reasons why a bank would be interested in the trading strategy adopted by a corporate borrower. (6 marks)
- (c) Before taking out a loan, it is crucial that you understand every aspect of your loan agreement. This will ensure that you are not signing yourself to be legally responsible for something that you were not prepared for.

With reference to the above statement, explain three terms in a loan agreement that you should consider before signing a loan agreement. (6 marks)

(Total: 20 marks)

.....



kasneb

CCP PART III SECTION 6

CORPORATE LENDING

THURSDAY: 28 November 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Any prudent corporate lender requires adequate knowledge of the type and nature of the customer presenting a borrowing proposal for consideration.

With reference to the above statement:

- (i) Highlight four features of a partnership business. (4 marks)
- (ii) Propose six acts, in the case of a trading partnership, which if committed by a partner in the course of the firm's business will be binding on the firm and other partners. (6 marks)
- (b) State four steps involved in developing a strategic plan of a company. (4 marks)
- (c) Lenders generally require borrowers to pledge assets for securing credit facilities extended to them.

With reference to the above statement, evaluate three collateral valuation guidelines provided by lending regulators in your country. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following types of risks as used in corporate lending:

- (i) Liquidity risk. (2 marks)
- (ii) Market risk. (2 marks)
- (iii) Operating risk. (2 marks)

- (b) Analyse the following financial statements performance measures as used in corporate lending:

- (i) Return on assets (ROA). (2 marks)
- (ii) Return on equity (ROE). (2 marks)
- (iii) Risk adjusted return on capital. (2 marks)

- (c) Discuss four advantages of financial statements analysis. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) (i) Explain the meaning of the term "Bank lending policy". (2 marks)

- (ii) Analyse six steps in the lending process used by a bank. (6 marks)

- (b) Assess four requirements considered by the Central Bank of your country in evaluating a client application for a licence to operate a credit reference bureau (CRB). (8 marks)

- (c) Highlight four types of collateral used for business loans. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Describe five roles of senior management of a lending institution. (5 marks)
- (b) List four steps in each of the following money market hedge used in the management of foreign exchange risk.
 - (i) Hedging payables. (4 marks)
 - (ii) Hedging receivables. (4 marks)
- (c) Examine seven areas that a loan review committee should focus on. (7 marks)

(Total: 20 marks)

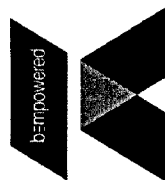
QUESTION FIVE

- (a) Discuss three benefits that could accrue to a lending institution from monitoring the borrower after all documentations and security has been put in place and loan proceed disbursed. (6 marks)
- (b) Explain the term “Corporate bond”. (2 marks)
- (c) Describe the following types of corporate bonds:
 - (i) Senior bond. (2 marks)
 - (ii) Senior secured bond. (2 marks)
 - (iii) Convertible bond. (2 marks)
- (d) A credit crunch refers to a decline in lending activity by financial institutions as a result of sudden shortage of funds. Credit crunch makes it nearly impossible for companies to borrow because lenders are scared of bankruptcies or defaults resulting in higher interest rates.

With reference to the above statement, propose six actions that a credit controller should take during credit crunch. (6 marks)

(Total: 20 marks)

.....



kasneb

**CCP PART III SECTION 6
CORPORATE LENDING**

www.masomomosingi.com

FRIDAY: 24 May 2019.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Examine three covenant clauses in a loan facility agreement. (6 marks)
 - (b) Discuss four methods of lease rent restructuring. (8 marks)
 - (c) With reference to prudential guidelines, describe six types of information considered during annual review of bank's credit portfolio. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Analyse the six steps of preparing of cash flow statement using the direct method. (6 marks)
 - (b) With reference to Henry Mintzberg's management theory (1987), describe the 5Ps of strategy. (10 marks)
 - (c) Explain four factors that have contributed to the rapid growth in non governmental organisations (NGOs) in your country. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) With reference to credit reporting:
 - (i) Enumerate five guidelines governing reciprocity principles. (5 marks)
 - (ii) Examine four consumer rights and data protection. (4 marks)
 - (b) Summarise five features of an effective credit monitoring system. (5 marks)
 - (c) Evaluate three ways through which a lender could perfect a security interest. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) In relation to monitoring and control of lending and credit reporting mechanisms:
 - (i) Outline four roles played by credit reference bureaus (CRBs) in your country. (4 marks)
 - (ii) Discuss three types of customer information that should be shared by CRBs. (6 marks)
 - (b) Explain 5C's of credit assessment. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain four types of assessments undertaken by a credit officer in the underwriting stage of lending. (4 marks)
 - (b) Differentiate between the following terms as used in corporate lending:
 - (i) "Exposure at default" and "loss given default". (4 marks)
 - (ii) "Negative credit report" and "positive credit report". (4 marks)
 - (c) Enumerate four methods that a credit analyst could use to estimate the probability of default of a loan facility. (4 marks)
 - (d) Examine four symptoms of overtrading. (4 marks)
- (Total: 20 marks)**

.....



kasneb

CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 30 November 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) With reference to prudential guidelines, suggest five conditions under which loans should be negotiated. (5 marks)
- (b) Discuss four steps involved in the analysis of the statement of financial position of a company. (8 marks)
- (c) Highlight three possible costs associated with stretching accounts payable as a source of financing. (3 marks)
- (d) Identify four important roles played by an agent in a syndicated loan arrangement. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) State four features of a state corporation that a corporate lender should be aware of. (4 marks)
- (b) Highlight four limitations of value at risk (VAR) method used by banks to measure credit risks. (8 marks)
- (c) Examine four levels of organisational strategy. (8 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Ethics in corporate lending are said to promote a lending institution's reputation where the ethics are upheld and practiced in the institution's business operation.

With reference to the above statement, highlight five requirements that employees are expected to adhere to under the institution's "know your employee" controls. (5 marks)

- (b) Muthaibu Nelson has been newly appointed as the credit administrator of Kukena Bank Limited (KBL). He has been previously working as a credit analyst in a savings and credit cooperative society (SACCO) where the only collateral required for borrowing is members' shares contribution and personal guarantees from other members. However, Kukena Bank Limited uses almost all types of collateral in its lending model.

Required:

Advise Muthaibu on five key considerations to be made while taking collateral for securing credit facilities by the bank. (10 marks)

- (c) Propose five factors to consider when selecting franchise as a source of finance. (5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain four types of risks associated with lending to multinational corporations. (8 marks)

- (b) With the recent discovery of oil and gas in your country, several multinational corporations have expressed interest in investing in the oil and gas sector. Dafco Energy has approached your bank for a credit facility.

Required:

As a credit manager of a bank in the East African region, analyse six lending guidelines to follow in evaluating whether or not to extend credit facility to the oil exploration corporations. (6 marks)

- (c) Describe three types of information that a lender should disclose to the customer during a loan cooling off period. (6 marks)

(Total: 20 marks)

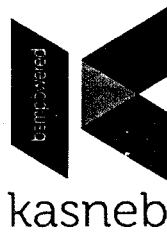
QUESTION FIVE

- (a) Evaluate five principles that should be included in a lender's consumer protection framework. (10 marks)

- (b) (i) Differentiate between "a syndicated loan" and "consortium financing". (4 marks)

(ii) Explain three advantages of syndicated loans. (6 marks)

(Total: 20 marks)



kasneb

CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 25 May 2018.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) When a bank credit process is not properly handled, especially with regard to risk assessment and management when lending to corporations, the resultant effects can be financial contagions which are easily confused with financial crises and credit crunches. These occurrences of financial panics in the economy have been witnessed in the past prompting most countries to come up with strict lending rules and guidelines for financial institutions.

With reference to the above statement:

- (i) Explain the term “financial contagion”. (2 marks)
- (ii) Discuss two categories of occurrences for financial contagions. (4 marks)
- (iii) Evaluate four hypotheses that explain the occurrence of financial contagions. (8 marks)
- (b) Explain three advantages of bonds over shares as sources of finance available to corporations. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Kitaka Mwinzi has recently been redeployed from the operations wing of the bank to the credit section to be in charge of appraising loan applications from small and medium-sized enterprises (SMEs). Kitaka has been wondering how the analysis of the financial statements and specifically the statement of cash flows, could be of great help in his new assignment. He has approached you as the team leader in the credit section for guidance.

Required:

Advise Kitaka Mwinzi on five areas of the statement of cash flows that he should consider when lending money to business firms.

(5 marks)

- (b) It is a common best practice for lenders to analyse corporate strategies of their prospective borrowers in relation to lending. The financial strategy becomes an aspect of emphasis and lenders must be sure that it has been laid out well and makes economic sense. The financial strategy must be integrated with the organisation’s business plan which is the principal guiding basis for formulation of financial strategies.

Required:

With reference to the above statement, describe the procedure of developing a financial strategy for an organisation.

(10 marks)

- (c) In the context of “internal control, policies and procedures” guidelines given to lenders under prudential guidelines in your country, examine five functions of compliance officers.

(5 marks)

(Total: 20 marks)

QUESTION THREE

- (a) (i) Explain the term “bridge financing”. (2 marks)
- (ii) Discuss four advantages of bridge financing. (8 marks)
- (b) Examine five advantages of a strong statistical scoring system to financial institutions. (5 marks)
- (c) Assess five advantages of asset based lending. (5 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Highlight four circumstances under which a financial institution could write off a bad debt. (4 marks)
- (b) Propose five advantages of upholding ethics in corporate lending. (5 marks)
- (c) Guarantees are among the simplest forms of security to take because they are effected by simply signing the guarantee form.

In light of the above statement, highlight five standard clauses that should be included in the wording of guarantees.

- (d) It is important to monitor loan collateral in order to safeguard the lender's interest. (5 marks)

With reference to the above statement:

- (i) Describe three areas of loan collateral that need to be monitored regularly. (3 marks)
- (ii) Summarise three limitations of a loan collateral. (3 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Discuss the following terms in relation to the management of risks in lending business:

- (i) Debt service coverage ratio. (3 marks)
- (ii) Financial covenants. (3 marks)
- (iii) Borrowing base. (3 marks)

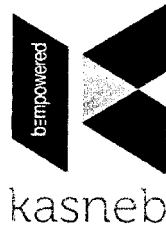
- (b) A lender considers the overall situation of the lending business by assessing certain internal characteristics.

In the context of the above statement, interpret the acronym "PREMIER" as used by lenders to meet the above purpose. (7 marks)

- (c) Explain four advantages of engaging in debt restructuring. (4 marks)

(Total: 20 marks)

.....



CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 1 December 2017.

Time Allowed: 3 hours.

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

QUESTION ONE

(a) Cash flows are classified and reported under three main categories in a statement of cash flows.

With reference to the above statement, examine the three categories of cash flows giving two examples in each case. (12 marks)

(b) An important aspect emphasised by a credit manager while reviewing a prospective borrower's business strategy is to understand where the borrower's business is placed in its trading market(s). This entails the establishment of status of the borrower's business in its life cycle.

With reference to the above statement, evaluate the key points a credit manager should note when the prospective borrower's business is at:

- (i) The start-up stage. (2 marks)
- (ii) The survival stage. (2 marks)
- (iii) The expansion stage. (2 marks)
- (iv) The maturity stage. (2 marks)

(Total: 20 marks)

QUESTION TWO

Super Tents Limited is a corporation that has been in the tents' making and supply business for the last ten years and is quoted on the country's securities exchange. The company is planning to expand its business to cover three neighbouring countries, hence an estimated Sh.10 million is needed. The company has sufficient assets base to support a long-term bank loan to finance this expansion.

The company's finance manager has approached you as a credit expert with the following two options for analysis before presentation to the board:

Option A

Use of the company's freehold property as collateral for a Sh.10 million bank loan that will be repaid within ten years. The bank's interest rate has been negotiated at 13.20%. The bank charges a loan processing fee of 5% and Sh.100,000 as legal fee for charging the property to be used as collateral.

Option B

Issue a corporate bond secured on the company's asset with Sh.20,000 par value, 12% coupon rate and maturing after ten years. The bonds will be sold at a discount of Sh.1,000 but the redemption price will be Sh.20,500. The company's required rate of return is 18%.

Required:

Using effective yield criteria, advise the finance manager on the best financing option to present to the board.

(20 marks)

QUESTION THREE

- (a) Banking institutions have formulated and continue to review prudential guidelines to lending business so as to ensure sound management of credit risk and embrace better cannons of lending.

This was partly necessitated by the fact that Basel Accords were not fit for all sizes of banking institutions.

Required:

Assess four pitfalls of Basel I in relation to the above observation.

(8 marks)

- (b) Despite the rigorous review process undertaken by banks before lending to customers, the banks should bear in mind general external and internal factors not recognised at the time of original assessment. These factors are likely to affect the risk of non-repayment of borrowed funds.

Required:

With reference to the above statement, summarise six internal factors and six external factors not recognised at the time of original assessment of the loan.

(12 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Distinguish between “position limits” and “risk rating loans” as used in loss exposure by banks. (4 marks)

- (b) Suggest six benefits that could accrue to a lending institution from upholding a code of conduct. (6 marks)

- (c) Explain the 5 P’s model of evaluating credit application as suggested by the Federal Reserve Centre in the year 2004. (10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Analyse five features of a syndicated loan. (10 marks)

- (b) Highlight five disadvantages of asset based lending. (5 marks)

- (c) Risk assessment to a lender’s operations entails examination of the most urgent business functions identified during business impact analysis. The assessment considers the probability and impact of a variety of specific threats that could cause a business disruption.

Required:

With reference to the above statement, describe five objectives that risk assessment was expected to achieve. (5 marks)

(Total: 20 marks)

.....

KASNEB

CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 26 May 2017.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) In use of a company's assets as collateral for financing, lenders evaluate impairment on the assets so as to have a fair approximation of their value.

In relation to the above statement, discuss five indicators of impairment considered by lenders. (10 marks)

- (b) Abuse of credit rating in lending is associated with adverse economic impacts in the financial sector as witnessed during the 2007/2008 financial crisis.

With reference to the above statement, analyse five credit rating challenges that might have led to the financial crisis. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Outline four warning signs of problem loans. (4 marks)

- (b) The following are the statements of financial position for Heifer Ltd. as at 30 April 2017 and 30 April 2016:

	2017	2016
	Sh. "000"	Sh. "000"
Non-current assets	1,300	1,000
Accumulated depreciation	<u>(600)</u>	<u>(400)</u>
	700	600
Investments	<u>100</u>	<u>400</u>
	800	1,000
Current assets:		
Inventory	1,400	800
Accounts receivable	3,100	2,700
Cash and bank balance	<u>-</u>	<u>200</u>
Total assets	<u>5,300</u>	<u>4,700</u>
Financed by:		
Ordinary share capital at Sh. 1 each	1,500	1,000
Share premium account	400	300
Retained earnings	<u>1,060</u>	<u>1,340</u>
	2,960	2,640
Current liabilities:		
Bank overdraft	120	-
Accounts payable	1,840	1,600
Taxation	<u>380</u>	<u>460</u>
Total equity and liabilities	<u>2,340</u>	<u>2,060</u>
	<u>5,300</u>	<u>4,700</u>

Additional information:

- During the year ended 30 April 2017, some non-current assets which were purchased at Sh.50,000 were sold for Sh.40,000 in cash.
- The accumulated depreciation on the disposed non-current assets as at 30 April 2016 amounted to Sh.20,000.
- Investments costing Sh.300,000 were sold at their book value during the year ended 30 April 2017.
- The taxation balances in the books of accounts represent the actual amount agreed with the revenue and customs authority. All taxes were paid on their due dates.
- A dividend of Sh.260,000 was paid during the year ended 30 April 2017.

6. During the year ended 30 April 2017, the company made a rights issue of 1 share for every 2 shares held. The rights issue was made at Sh.1.20 per share.
7. Earnings before tax for the year ended 30 April 2017 was Sh.360,000.

Required:

Cash flow statement for the year ended 30 April 2017 using the indirect method.

(16 marks)

(Total: 20 marks)

QUESTION THREE

(a) With reference to predatory lending, explain the following types of lending:

- (i) Loan sharking. (2 marks)
- (ii) Loan flipping. (2 marks)
- (iii) Loan packing. (2 marks)

(b) On 1 May 2017, Mega Ltd. applied for a loan of Sh.50 million from TLD Bank. TLD Bank in their offer letter, gave the following requirements that Mega Ltd. must have met for the years 2015 and 2016:

- Operating profit should be above 35%.
- Net profit margin should be above 20%.
- Current ratio should be above 1.2.
- Total liabilities should not exceed 65% of total assets.
- Annual revenue growth should be above 10% per annum. The 2014 revenue was Sh.650 million.
- For the application to pass the appraisal stage, three of the five conditions above must be met.

Below are the extracts from the books of accounts of Mega Ltd. for the years 2015 and 2016:

Income statement extract:

	2015 Sh. "million"	2016 Sh. "million"
Revenue	710	725
Gross profit	515	520
Operating profit	275	260
Profit before tax	235	205
Profit for the year	185	160

Balance sheet extract:

	2015 Sh. "million"	2016 Sh. "million"
Non-current assets	515	975
Current assets	165	140
Capital and reserves	460	635
Non-current liabilities	20	85
Current liabilities	200	395

Required:

Analyse whether Mega Ltd.'s application passed the appraisal stage.

(14 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Jazzi Ltd. was incorporated in Kenya in 2004. The company's main line of business is the sale of computers. The company has received a foreign purchase order from the Rwandan government. The management of Jazzi Ltd. is worried about the foreign currency transaction involved. They have approached you as a credit consultant to advise the management on foreign transactions.

Required:

Advise the management of Jazzi Ltd. on four methods they could use to mitigate foreign exchange risk.

(8 marks)

- (b) ABC Ltd. is a wholly owned subsidiary of DEF Ltd. DEF Ltd. is 60% owned by GHI Ltd. and 25% by JKL Ltd. Taratibu Consortium is the sole shareholder of GHI Ltd. and JKL Ltd., giving it an overall 85% indirect stake in ABC Ltd.

Taratibu Consortium has applied for a loan in your bank. As a credit analyst, you are aware that lending to a group requires special consideration of risk.

Required:

Analyse six areas of special consideration before lending to Taratibu Consortium.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Highlight four advantages of e-billing. (4 marks)
- (b) Describe how the following techniques could be used to detect a fraudulent credit card transaction in an e-payment infrastructure:
- (i) Address verification system (AVS). (2 marks)
 - (ii) Card verification number (CVN). (2 marks)
- (c) The prudential guidelines issued by central bank have categorised some loans as non-performing. Enumerate two classifications of non-performing loans. (4 marks)
- (d) Discuss four precautions that a bank might take when lending long-term to a corporate. (8 marks)

(Total: 20 marks)

.....

KASNEB

CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 25 November 2016.

Time Allowed: 3 hours.

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

QUESTION ONE

(a) Describe five criteria that could be followed by a corporate lender when classifying agricultural loans. (5 marks)

(b) Ecoblu Limited is a petroleum exploration company operating in Kenya since 1998. The company was originally called Niltwo Limited, but changed its name after being acquired by a Russian energy company, "The Zimcom Group" in the year 2001.

In June 2011, Ecoblu Limited announced that it was seeking funding of 20 billion shillings to finance the Kenyan oil pipeline and upgrade its infrastructure.

In July 2013, it was reported by a local press that Ecoblu Limited had defaulted on license renewal. It had only paid 8 billion shillings of the total 10 billion shillings for a new 15-year concession license.

In December 2015, Ecoblu Limited's market share was around 30% while its competitors Max Energy Limited and Ken Trezo Limited had a market share of 37% and 21% respectively. The remaining 12% market share was owned by unlicensed operators. Max Energy Limited and Ken Trezo Limited are both owned by the Kenyan government and have been very aggressive to increase their market presence after discovery of crude oil in the country.

In the year 2015, Ken Trezo Limited and Max Energy Limited lost 9% in market share to Ecoblu Limited after they increased prices of their products. The two companies also lost most of their experienced staff.

The following is an industry extract of the three energy companies for the financial year ended 31 December 2015:

	Max Energy Limited Sh."billions"	Ecoblu Limited Sh."billions"	Ken Trezo Limited Sh."billions"
Total revenue	20	25	12
Total assets	29	32	21
Total liabilities	14.8	18.8	14
Capital	10	15	10

Required:

Using Michael Porter's five forces of competitive position model, evaluate the strategic variables of Ecoblu Limited and the industry in relation to lending. (10 marks)

(c) Filtrex Limited, a corporate customer, seeks to obtain a Sh.100 million line of credit from Quadrax Bank. Filtrex Limited agrees to pay a 9% interest rate and make compensating balances of 6% of the total credit line and 3% of the amount actually borrowed. These will be held in non-interest bearing transactions deposits at the bank for one year.

The bank charges a 1% loan origination fee on the amount borrowed and a 0.25% commitment fee on the unused line of credit. The expected draw down (loan amount) is 60% of the credit line for one year. Reserve requirements are 10%.

Required:

The expected rate of return to the bank.

(5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Secretive insider lending in the banking sector in the recent past has been cited by the banking regulator as one of the major causes of some banks being put under statutory management or under liquidation.

In relation to the above statement:

- (i) Explain the term “insider lending”. (1 mark)
- (ii) Examine four warning signs of a potential fraud and insider abuse in the banking sector. (4 marks)
- (iii) Suggest three ways which could be used to mitigate against insider lending in the banking sector. (3 marks)
- (b) In relation to the Basel Accord, distinguish between “Tier 1 Capital” and “Tier 2 Capital”. (2 marks)
- (c) Ponvesto Limited is considering borrowing Sh.200 million from a bank and has submitted the following financial statements to the bank for consideration:

Statement of financial position as at 31 December:

	2013	2014	2015
	Sh. “000”	Sh. “000”	Sh. “000”
Non-current assets	662,764	791,651	962,284
Current assets	238,868	298,081	573,704
Equity	373,129	277,351	368,810
Non-current liabilities	681,286	870,058	1,267,370
Current liabilities	593,474	497,121	637,524
Cash	46,737	63,916	60,653

Statement of financial performance for the year ended 31 December:

	2013	2014	2015
	Sh. “000”	Sh. “000”	Sh. “000”
Revenue	1,034,549	971,209	1,103,839
Other income	157,006	69,482	133,781
Operating expenses	870,825	908,253	1,092,322
General and administrative expenses	165,931	148,273	166,795
Finance income	20,250	2,303	23,512
Finance cost	216,987	156,334	329,559
Loss before tax	41,939	169,866	327,543
Tax	57,486	(81,670)	-

Required:

Compute and interpret each of the following ratios for the year ended 31 December 2014 and 31 December 2015:

- (i) Current ratio. (2 marks)
- (ii) Cash ratio. (2 marks)
- (iii) Operating profit/loss ratio. (2 marks)
- (iv) Net profit/loss ratio. (2 marks)
- (v) Return on assets ratio. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Examine four salient features of a not-for-profit making organisation as a corporate customer. (4 marks)
- (b) For purposes of appraising a borrower’s creditworthiness, lenders may seek credit rating from established credit reference bureaus (CRB). Other lenders utilise internal tools for scoring and arriving at credit ratings for prospective borrowers.

With reference to the above statement, suggest four factors that are usually considered when assigning a credit rating score to a borrower. (4 marks)

- (c) (i) Discuss three types of letters of credit that could be used by multinational corporations to manage credit default risks. (3 marks)
- (ii) Explain three advantages of letters of credit. (3 marks)
- (d) When a bank receives a lending proposal from a prospective borrower, it normally considers the following two important factors:
- What the customer would like to get from the bank.
 - What the bank is willing to offer within its lending policy.

In relation to the above statement, evaluate the bank's perspective on:

- (i) The pricing of the facility. (3 marks)
- (ii) The amount requested. (3 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Vantom Limited is considering borrowing Sh.500 million from Zanco bank in the next financial year to finance its ambitious regional expansion program.

As the credit manager of the company, advise the management of Vantom Limited on the requirements they should meet before approaching the bank for the loan facility. (5 marks)

- (b) After lending to a company, there is need for commercial banks to continuously monitor the trading performance of the company.

Required:

- (i) Examine three occasions when a company's business account could be said to be "out of order". (3 marks)
- (ii) Propose three warning signs of a company experiencing trading difficulties. (3 marks)
- (c) Citing appropriate reasons, justify why commercial banks could undertake the following appraisal methods for financial statements before granting a customer a loan facility:
- (i) Pro-forma analysis. (2 marks)
- (ii) Loan-to-value ratio. (2 marks)

- (d) Collaterals are contractual devices used by borrowers and lenders around the world. They could be in property or other form of assets that a borrower can offer to a lender to secure a loan. If the borrower defaults in making the promised loan payments, the lender can seize the collateral to recoup its loan.

In relation to the above statement, argue five cases against use of collaterals as security for loans to both lenders and borrowers. (5 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Analyse four characteristics of a good ethical banking practice. (4 marks)
- (b) Explain the following terms as used in corporate lending:
- (i) Loan-loss provisions (LLPs). (1 mark)
- (ii) Loan-loss reserves (LLRs). (1 mark)
- (iii) Non-performing loan (NPL) ratio. (1 mark)

- (c) Zurian Bank Limited has non-performing loans (NPLs) totalling to Sh.350 million. The bank's loan-loss coverage amounts to Sh.200 million and it has shareholders' equity of Sh.100 million.

Required:

The bank's adjusted non-performing loan coverage ratio.

(3 marks)

- (d) Discuss four items that should be addressed by an effective credit policy as outlined in the risk management guidelines issued by the banking regulator in your country.

(4 marks)

- (e) Describe six key types of information that the credit officer might check in a business plan when evaluating a loan proposal of a corporate client.

(6 marks)

(Total: 20 marks)

.....

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)

.....

KASNEB

CCP PART III SECTION 6

CORPORATE LENDING

FRIDAY: 27 November 2015.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Describe how the following charges on movable properties could be created:
- (i) Pledge. (2 marks)
 - (ii) Hypothecation. (2 marks)
 - (iii) Assignment. (2 marks)
 - (iv) Banker's lien (2 marks)
 - (v) Set-off. (2 marks)
- (b) Discuss five reasons for carrying out cash flow analysis when evaluating a credit request for a commercial loan. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) (i) Examine five norms that a bank could follow in order to minimise the risks involved in lending. (10 marks)
- (ii) As a rule, a banker is legally duty-bound to observe secrecy about the account and the affairs of the customer. However, under certain circumstances, a banker would be justified in disclosing the facts about the customer's account.
- With reference to the above statement, describe five exceptions to this rule. (5 marks)
- (b) An institution should write off a loan or a portion of a loan from its statement of financial position when the institution loses control of the contractual rights over the loan or when all or part of a loan is deemed uncollectable or there is no realistic prospect of recovery.
- With reference to the above statement, analyse five situations where an institution should write off a loan or portion of a loan. (5 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) (i) Explain the term "project finance". (3 marks)
- (ii) Identify three key features of project finance. (3 marks)
- (iii) Outline four benefits of project finance. (4 marks)
- (b) Propose five factors that could affect interest rates in your country. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Discuss four types of risks associated with lending to oil and gas corporate customers. (8 marks)
- (b) You are a senior government official at the National Treasury of your country. You are mandated to negotiate for development loans with multinational donors such as the World Bank. In your recent negotiation with the World Bank, your country was granted a development policy loan with a catastrophe deferred drawdown option (Cat DDO).

With reference to the above statement:

- (i) Explain the term “development policy loan with a catastrophe deferred drawdown option (Cat DDO)” (2 marks)
 - (ii) Analyse five benefits of Cat DDO to your country. (10 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the term of payment “2/10 net 30”. (2 marks)
 - (b) Evaluate four types of intangible loan securities. (8 marks)
 - (c) Propose five factors that could affect the cost of capital for a multinational corporation (MNC). (10 marks)
- (Total: 20 marks)**
-

KASNEB

CCP PART III SECTION 6

CORPORATE LENDING

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

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

QUESTION ONE

- (a) Discuss the lending process. (12 marks)
- (b) Assess any four considerations by lenders when evaluating collateral for loans. (4 marks)
- (c) Highlight the differences between partnerships and limited liability companies. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) In lending to a group of companies, lenders examine a number of special aspects of risk. Analyse five such considerations. (10 marks)
- (b) Explain the following terms as used in corporate lending:
- (i) Loan review. (2 marks)
- (ii) Loan option. (2 marks)
- (iii) Loan participation. (2 marks)
- (c) One of the principles of the loan review process is structuring of the review process to ensure monitoring of the important features of loans. Outline four features to be checked with reference to this principle. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Credit derivatives are a branch of risk management tools used to reduce credit risk exposure in a firm's statement of financial position. You have been contracted as a credit expert by Airo Bank to advise them on the various credit derivatives that the bank could use to this effect.

Required:

Discuss four credit derivatives you could include in your advice to the bank's management. (8 marks)

- (b) Examine the meaning of "non-performing loan and advances" as per the Central bank's prudential lending guidelines in your country. (8 marks)
- (c) Standards of conduct and personal integrity define the ethics in all professions. Most codes of conduct cover four main aspects from the relationships point of view with regard to ethics.

Required:

Assess the four aspects referred to above in relation to ethics in corporate lending. (4 marks)

(Total: 20 marks)

QUESTION FOUR

While analysing the financial statements of Johnson, a credit consultant finds the following information in Johnson's books of account:

A business loan of Sh.800,000 made two years ago at an interest rate of 15% p.a for a period of five years. After the last two years, the bank's interest rate has dropped to 13.20% p.a and Johnson wishes to refinance his loan at the beginning of the third year.

The bank has accepted Johnson's proposal but will charge him 2.0% penalty for early repayment, Sh.2,000 processing fee for the new loan and Sh.500 incidental closure costs for the existing loan.

Required:

As the credit consultant in this scenario, advice Johnson on whether to refinance the existing loan. (20 marks)

QUESTION FIVE

(a) Explain the following sources of finance used by corporates in raising funds for their operations:

(i) Equity finance. (2 marks)

(ii) Bonds. (2 marks)

(iii) Franchising. (2 marks)

(b) (i) Describe corporate strategy. (2 marks)

(ii) Summarise "PESTEL" as a model of corporate strategy analysis in lending. (12 marks)

(Total: 20 marks)

.....