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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)

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