BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

BANK LENDING AND CREDIT RISK MANAGEMENT (BS453)

3 HOURS

OCT 2024

Instructions to Candidates

1. **Answer Question 1 and any other three**
2. **All questions carry equal marks**
3. **Credit will be given for well-presented answers.**

QUESTION ONE (Compulsory)

Case Study One

Zimbabwe suspends bank lending in bid to arrest currency decline

Reuters May 8, 202211:05 AM GMT

Zimbabwe's government on Saturday ordered banks to stop lending with immediate effect in a move meant to stop speculation against the Zimbabwean dollar and was part of a raft of measures to arrest its rapid devaluation on the black market. The Central bank governor on Saturday announced measures he said were meant to arrest the currency's depreciation, which he said threatened Zimbabwe's economic stability. "Lending by banks to both the government and the private sector is hereby suspended with immediate effect, until further notice," he said in a statement. He accused unnamed speculators of borrowing Zimbabwe dollars at below-inflation interest rates and using the money to trade in forex. Other measures include an increased tax on forex bank transfers, higher levies on forex cash withdrawals above $1,000, and the payment of taxes which used to be charged in forex in local currency. The devaluation of the Zimbabwe dollar's black market exchange rate, which is used in most financial transactions in the economy, has been driving up inflation.

a) Explain how freezing of bank lending in Zimbabwe was supposed to stop the currency depreciation (6)
b) State and explain three functions of the central bank in Zimbabwe (6)
c) Give three effects of this bank lending freeze on the Zimbabwean economy (6)
d) Explain the measures that must be put in place by the central bank to reduce the abuse of bank loan facilities by customers (7)

[25MARKS]

QUESTION TWO

Explain the following terms as they relate to credit risk management.

a. Collateralised debt obligations (5)
b. Credit derivatives (5)
c. Syndicated loans (5)
d. Letter of Credit (5)
e. Securitisation **(5)** **[25MARKS]**

QUESTION THREE

a) Explain, with the aid of examples, how credit risk can be managed through the use of a well-diversified portfolio. (10)
b) Discuss the benefits of credit derivatives (15)

[25 MARKS]

QUESTION FOUR

"The sound practices set out in the Basel document represent internationally accepted standards which should be instilled in the banks' risk management processes". Explain the five (5) principles for the assessment of credit risk management as stated in the Basel Committee for Bank Supervision document. **[25MARKS]**

QUESTION FIVE

a) Explain the major factors that banks need to consider before granting credit to SMEs (13)
b) State four (4) reasons why SMEs fail to meet their loan obligations to banks (12)

[25MARKS]

QUESTION SIX

Explain how credit risk can be mitigated using derivatives **[25MARKS]**

END OF EXAMINATION