

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**  
**FACULTY OF COMMERCE**  
**DEPARTMENT OF BANKING AND FINANCE**  
**BANK LENDING AND CREDIT RISK MANAGEMENT (BS453)**  
**3 HOURS**

Nov 2023

**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.
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**QUESTION ONE (Compulsory)**

**Case Study One**

**Zimbabwe unfreezes bank lending only days after policy change**

*17 May 2022 Business and Economic Review*

Zimbabwe has lifted its ban on bank lending, the central bank has announced, more than a week after the government froze loans in a move it said was meant to stop speculation against a rapidly devaluing local currency. The government said at the time it had started investigating unnamed speculators for taking out Zimbabwe dollar bank loans to buy foreign currency on the black market, driving the local currency's value lower. "The Bank wishes to advise the public that the temporary suspension of lending services by banks has been lifted with immediate effect," the central bank said in a statement on Tuesday. It added that only organisations being investigated for abusing loan facilities would not be allowed to borrow from banks.

Business groups had warned that the lending freeze would hurt commerce and worsen Zimbabwe's economic crisis. Last week, South Africa's Tongaat Hulett suspended prepayments to sugar cane farmers, saying it relied on bank loans to fund the payments. The lending freeze did slow the Zimbabwean dollar's slide on the black market, although it had little effect on the official rate.

- a) Explain the major functions of the central bank in Zimbabwe (6)
- b) State and explain three reasons why the central bank had banned lending in Zimbabwe (6)
- c) Give three effects of this bank lending freeze on the Zimbabwean economy (6)
- d) What measures must be put in place by the central bank to reduce the abuse of bank loan facilities by customers? (7)

**[25MARKS]**

## QUESTION TWO

- a) State and explain the loan granting process (13)
- b) Discuss the six principal components of the loan agreement. (12)

[25MARKS]

## QUESTION THREE

- a) Explain how non-performing loans contributed to the Global financial crisis of 2007-08 (13)
- b) Discuss ways in which banks can mitigate against the occurrence of non-performing loans on their balance sheets. (12)

[25MARKS]

## QUESTION FOUR

'The Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks and provides a forum for regular cooperation on banking supervisory matters' State and explain the five (5) principles for the assessment of credit risk management as stated by the committee [25MARKS]

## QUESTION FIVE

- a) Describe any five types of loans that are issued by commercial banks (12)
- b) Explain the roles of the supervisor in the management of bank credit risk (13)

[25MARKS]

## QUESTION SIX

Credit risk in a bank is managed through a well-organized committee that comprises of the Chief Executive Office, Head of Treasury, Chief of Finance and Risk Manager. Explain the responsibilities of this Credit Risk Management Committee in a banking institution.

[25MARKS]