FINAL EXAMINATION SEP - DEC 2019

EXAMINATION FOR DIPLOMA IN CREDIT MANAGEMENT

UNIT CODE: DMBA 1101

UNIT TITLE: CORPORATE LENDING

INSTRUCTIONS:

- Answer Question **ONE (compulsory)** and any other **TWO** questions
- Show all workings

QUESTION ONE

a) Highlight and explain FIVE important canons of lending. (10 Marks)
b) Advice a borrower seeking alternative sources of financing. (10 Marks)
c) Explain the meaning of credit reference bureaus and their role in lending; give examples of TWO in Kenya. (5 Marks)
d) What is your understanding of ethics in corporate lending? (5 Marks)

QUESTION TWO

a) What are SIX key corporate goals and what is the importance of each to a credit manager. (12 Marks)
b) Explain TWO models used to measure interest rate risk. (4 Marks)
c) Explain the meaning of price risk. (4 Marks)

QUESTION THREE

a) Explain FIVE lending requirements and their use by lenders. (10 Marks)
b) Assess & interpret extract of financial statements from 2 borrowers provided below. Suggest which borrowers' application should be accepted. (10 Marks)

	Mzalendo Traders Limited	**Hekima Stores Limited**
Statement of Cashflow		
As at 31st December 2017	**KES. "000**	**KES. "000**
Cashflow from Operating activities	50,000	5,000
Cashflow from Investing Activities	5,000	85,000
Cashflow from Financing Activities	1,000	30,000
	56,000	*120,000*
Cash & Cash Equivalents 01.01.2017	*13,000*	*5,000*
Cash & Cash Equivalents 31.12.2017	**69,000**	**125,000**

QUESTION FOUR

a) State FOUR grand strategies in relation to lending. (4 Marks)

b) Differentiate between any TWO in (a) above. (8 Marks)

c) Explain at least FOUR generic strategies available to a corporate customer and what they mean to a credit manager. (8 Marks)

QUESTION FIVE

a) Explain the following terms;

    i. Duration Gap Model. (3 Marks)

    ii. Asset/Liability Maturity. (3 Marks)

b) Highlight TWO advantages & disadvantages of using the Duration Gap Model by a lender. (4 Marks)

c) Table below provides repayment cashflow information for two different lenders for different years of a 5 year & 8 year bond respectively.

	Bond Stars Limited	**CUK Microfinance Limitd**
Cashflow in Year		
	"000	**"000**
1	750	640
2	750	640
3	750	640
4	750	640
5	5,750	640
6		640
7		8,640

Bond Amount	5,000	8,000
Coupon Interest rate	15%	8%

Extract of Present Value Table

n/i	8%	15%
1	0.9259	0.8696
2	0.8573	0.7561
3	0.7938	0.6575
4	0.735	0.5718
5	0.6806	0.4972
6	0.6302	0.4323
7	0.5835	0.3759

Additional information;

i. Bond Stars Limited has a liability of KES. 5M at an interest rate of 10% repayable after 5 years.

ii. CUK Microfinance Limited has a liability of KES. 8M at an interest rate of 7% repayable after 8 years.

Determine;

a) Duration and Duration Gap of the bond for each lender. (8 Marks)

b) Advise each lender on their Duration Gap. (2 Marks)