ASSOCIATESHIP EXAMINATION

LEVEL II

CREDIT RISK MANAGEMENT

APRIL 2025

[NEW SYLLABUS]

N.B.

1) Read carefully the instructions on the cover of the answer booklet.

2) Answer the questions as follows:
   a. SECTION A – THIRTY OBJECTIVE questions, each question carries 1 mark.
   b. SECTION B – TWO ESSAY questions, each question carries 15 marks.
   c. SECTION C – TWO CASE/SCENARIO BASED questions. Each question carries 20 marks.

3) Candidates must note that if provision of security forms part of the answer, they must indicate the type of security required but not give detailed steps in perfecting that security. Disregard any current official restriction on lending.

4) ASSUME GHANA REFERENCE RATE (G.R.R.) OF 29 % IN ALL CALCULATIONS.

5) Answers in listed note form are acceptable provided they are clearly and logically presented and the points adequately developed.

6) Silent non-programmable electronic calculators may be used in this examination. Whether or not candidates use them, it is in their interest to show the basic figures from which their calculations are made.

7) **Time allowed: THREE HOURS. An additional 15 minutes of reading time is allowed** at the beginning of the examination during which time candidates may write on this paper but not in the answer booklet.

8) Candidates must ensure that they answer the questions in the appropriate answer booklets and not on loose sheets which may be used only as supplementary sheets. Such answers will be cancelled.

9) DO NO WRITE YOUR NAME ON THE ANSWER BOOKLET.

10) DO NOT OPEN THIS QUESTION PAPER UNTIL INSTRUCTED TO DO SO.

SECTION A- MULTIPLE CHOICE QUESTIONS

ANSWER ALL QUESTIONS

1. Which of the following customers represents the lowest level of risk?
   a) A customer with a low ratio of current assets to liabilities and a high proportion of debt financing
   b) A customer with a strong external credit rating and high levels of cash on the balance sheet
   c) A customer with a young management team that has recently started up the business
   d) A customer that is financing 100% of the purchase on credit because it does not have the cash to make a down payment

2. What is the primary purpose of Portfolio Segmentation in Credit Portfolio Management?
   a) To categorize borrowers based on their credit scores
   b) To divide the portfolio based on geographical location
   c) To separate the portfolio into different risk categories
   d) To allocate resources evenly across the entire portfolio

3. Which of the following does **not** constitute a problem loan?
   a) A loan that is past due for 90 days
   b) A loan that is written off
   c) A loan that is past due for 30 days
   d) None of the above

4. Which of the following is likely to give cause for concern regarding the ability of a customer to meet their obligations?
   a) A modest excess that is quickly settled
   b) A week's delay in submitting compliance data
   c) An excess that is not cleared within the timeframe promised by the customer
   d) Customers inability to provide additional security

5. Credit Risk can have an impact on a bank's Profitability, Balance Sheet, and…………...
   a) Employee Satisfaction
   b) Regulatory Compliance
   c) Reputation
   d) Market Capitalization

6. Advances may be classified into the following except………………………………
   a) OLEM (Other Loans Especially Mentioned)
   b) Substandard
   c) Doubtful
   d) Loss

7. Which of the following situations best describes the Trough Phase of the Credit Cycle?
   a) Credit is readily available, and lending is increasing
   b) Credit availably decreases due to increasing defaults

c) Lending is at its highest point
d) Credit conditions are tight, and lending activities are at a minimum

8. Which of the following statements is/are true regarding the interpretation of Early Warning Indicators (EWIs)?
   A. All EWIs have equal significance.

   B. Limit excesses should always give cause for concern.

   C. Customers who regularly appear on EWI reports are likely to have some underlying issues.

   a) B only
   b) C only
   c) A & B only
   d) A, B & C only

9. Which of the following builders is most risky in terms of facility repayment?
   a) Contract Builders
   b) Residential Builders
   c) Commercial Builders
   d) Speculative Builders

10. Stakeholders have different interests in a published Financial Statement. Suppliers of raw materials foremost interest is in ……………………………………….
    a) Stock Turnover Days
    b) Interest Cover
    c) Payable Days
    d) Profit Margin

Use the data below to answer Questions 11 and 12

Item	**Year-2024**
Accounts Receivable	2,107
Inventory	3,843
Accounts Payable	1,155
Credit Sales	9,932
Cost of Sales	7,487

11. Calculate the company's Accounts Payables Days. State your answer correctly to two decimal places.
    a) 56.23

b) 66.55
c) 76.78
d) 56.30

12. Calculate the company's Accounts Receivable Days. State your answer correctly to two decimal places.
    a) 74.60
    b) 77.43
    c) 71.77
    d) 102.10

13. A complete audited financial statement of a small business should include the following except ……………………………………………
    a) Statement of Financial Position
    b) Statement of Profit & Loss
    c) Cash Flow Statement
    d) Changes in Management Team

14. Which of the following is **not** a benefit of Alternative Security Arrangements for Borrowers?
    a) Flexibility
    b) Access to Credit
    c) Higher Interest Rates
    d) Using different types of Assets as Collateral

15. A typical Credit Administration Unit of a bank performs the following functions except …………………………………….
    a) Credit Disbursement
    b) Credit Origination
    c) Credit Monitoring
    d) Credit Risk Measurement

16. An effective Credit Monitoring System should include measures to………………..
    a) Ensure that the bank understands the current financial condition of the borrower
    b) Ensure timely disbursement of facilities
    c) Ensure waiver and deferral of conditions precedent to drawdown
    d) Ensure facilities are disbursed without adequate security cover

17. Which of the following statements is true?
    a) The taking of collateral acts as a substitute for assessing and monitoring the creditworthiness of Borrowers and Counterparties.
    b) The taking of collateral lowers Regulatory Capital Requirements under the Basel Capital Framework.
    c) The taking of collateral is an indication that the Borrower will repay the facility to the Lender.

d) The taking of collateral improves the Balance Sheet of the Lender

18. The Borrowers and Lenders Act 2020 (Act 1052) specifies that a Lender shall not conclude a Credit Agreement with a prospective Borrower unless the Lender provides the prospective Borrower with a Pre Agreement Truth Statement. The Pre Agreement Truth Statement should include the following except………………………………
    a) Principal Amount
    b) Interest Rate
    c) Other Credit Cost
    d) Approval Authority Limit

19. The quality of a security hinges on the following except……………………………...
    a) Marketability
    a) Ascertainability
    b) Repuatation
    c) Transferability

20. If a bank has GH¢200.0 million in Tier 1 Capital and GH¢30.0 million in Tier 2 Capital and has a loan that had been weighted and calculated at GH¢650. 0million. What is the bank's Capital Adequacy Ratio (CAR)?
    a) 2.82%
    b) 4.61%
    c) 35.38%
    d) 30.76%

21. A good Credit Risk Management Team is assessed by the following except………………………..
    a) Quality Loan Portfolio
    b) Increasing Profitability from Trade Business.
    c) Less Loan Writes Offs
    d) Solvency of the Bank

22. Which strategy promotes Inclusiveness in Banking through Credit?
    a) Increasing interest rates
    b) Imposing strict eligibility criteria
    c) Implementing diversity training programs
    d) Restricting credit access to certain demographics

You are given the following information about a bank's Credit Portfolio:

Counterparty	Risk Weight	Nominal Assets Value-GH¢
A	20%	120million
B	40%	60million
C	60%	30million

23. What is the Portfolio RWA?

a) 90.0million
b) 30.0million
c) 66.0million
d) 60.0million

24. A bank has granted a GH¢150 million 2-year Loan to a borrower with outstanding exposure of GH¢100 million as at 31st December 2024. The bank estimates that the borrower has a 0.02% probability of going into default in the next year. It also estimates that in the event of default, this loan would have a recovery rate of 25%. What is the Expected Loss on the Loan?

a) 5,000
b) 15,000
c) 25,000
d) 20,000

25. What are the key features of Electronic Credit?
a) Paper-based application process
b) Manual verification of documents
c) Physical presence required for transactions
d) Digital application and online transaction

26. The following are variables used for individual Credit Scoring except………………..
a) Age of Borrower
b) Marital Status
c) Occupation
d) Religious Denomination

27. How does the Risk-Return Profile trigger Credit Portfolio Structure and Restructuring?
a) By identifying High-Risk Segments and Concentration Risk
b) Determining the Optimal Asset Allocation for the Portfolio.
c) By assessing the Portfolios Liquidity and Solvency Positions
d) By establishing Early Warning Systems for Credit Deterioration

28. A business purchases inventory with 60-day payment terms from its suppliers. What is the net effect of this transaction on its Cash Flow?
a) Cashflow will decrease by the amount of inventory it purchased
b) Cashflow will increase by the amount of credit from its supplier
c) There will be no effect on cash flow
d) Cashflow will remain the same over the credit period

29. As the Head of Credit Monitoring Unit of your Bank, which of the following should you worry most about?
a) Frequent Excesses
b) Loan repayments on schedule

c) Improvements in Average Account Turnover
d) Increasing number of Credit Transactions

30.Which of the following Financial Ratios could be used as an early warning signal?
a) Profitability Ratios
b) Liquidity Ratios
c) Leverage Ratios
d) All the above

SECTION B- ESSAY QUESTIONS

ANSWER TWO QUESTIONS ONLY

QUESTION 1

Discuss in detail any six (6) sources of Business Finance. [**15 Marks]**

QUESTION 2

a) What are Personal Advances? [**3 Marks]**
b) Discuss in detail five (5) Personal Advance Products offered by banks. [**10 Marks]**
c) State two (2) functions of Credit Origination Department. **[2 Marks]**

[Total:15 Marks]

QUESTION 3

Outline the key elements of a sound Problem Loans Management system in a bank.

[**15 Marks]**

QUESTION 4

a) Explain the following terms in Credit Risk Management:
   i. Risk Appetite **[2 Marks]**
   ii. Risk Tolerance [**2 Marks]**

b) What is Credit Rating? **[2 Marks**]

c) Distinguish between Internal and External Credit Risk Rating. [**3 Marks**]

d) Outline three (3) key considerations in Credit Risk Rating. [**6 marks**]

[Total:15 Marks]

SECTION C-CASE/SCENARIO BASED QUESTIONS

ANSWER TWO QUESTIONS ONLY

QUESTION 1

Alhaji Transport Company Limited was established in 2001. However, they opened an account with your bank in 2003 when one of your Relationship Managers picked them up from another bank. Their account conduct has been impressive over the years until a year ago when you noticed a significant deterioration in account operations. The company has attributed this to frequent breakdowns of their overaged vehicles, five (5) of which were bought over ten (10) years ago. They also informed you that five (5) of their experienced drivers must exit from the company because they were due for compulsory retirement.

The company now has a fleet of twenty (20) buses and the company intends to replace five (5) of them and acquire a further five (5) to increase the fleet size to twenty-five (25). The company also has a workshop with experienced mechanics, headed by Mr. Seidu Musah, who joined the company four (4) years ago following his retirement from PHC Motors. He is now 64 years.

The Shareholders include Alhaji Abdul Tahiru, aged 60 holding 50% shares, Mr Frimpong Mohammed, aged 61 holding 30% of the shares and Mr. Majeed Abdulai, a Business Executive holding 20% shares. Mr. Majeed Abdulai serves as the Chairman of the company’s Board of Directors.

Management of the company is as follows:

Alhaji Abdul Tahiru, CEO, holds a first degree in Logistics and Chain Supply. He left his job at Prudential Bank as a Sales Service Manager to establish Alhaji Transport Company Limited.

Nat Kyeremeh, aged 59, is the General Manager. He holds a first degree in Mechanical Engineering. He had twenty years’ experience with Pergah Transport in Accra prior to joining the company.

Seidu Adongo holds a degree in Accounting and ICA Part 3. He is responsible for the company’s Accounts. He is 56 years.

Kwabena Johnson is the Fleet Manager. He is aged 55. He has a first degree in Marketing, with ten years’ experience with STC as an Assistant Fleet Manager prior to joining the company five years ago.

The CEO has submitted an invoice for the buses the company intends to acquire, showing the price of one 45-Seater Bus at USD80,000.00. Shipping costs are also estimated to amount to USD2,000 per vehicle. Customs Duties on buses are set at 15% of the cost of the vehicle. Exchange rate for USD/GHS is GHS 15/1 USD

Shareholders propose to inject funds of USD500,000.00 for the purpose of the acquisition of the buses.

Below is the Profit and Loss Account and Balance Sheet for the past three (3) years.

ALHAJI TRANSPORT COMPANY LTD
Profit and Loss Extracts for the
year ending 31 Dec

	2022 GH₵	2023 GH₵	2024 GH₵
Total Revenue	3,700,000	4,400,000	4,920,000
Cost of Revenue	2,245,000	2,789,000	3,150,000
Gross Profit	1,455,000	1,611,000	1,770,000
Overheads	350,400	365,000	498,000
Depreciation	477,000	477,000	477,000
Operating Profit	627,600	769,000	795,000
Interest Paid	120,000	155,000	258,000
Profit Before Tax	507,600	614,000	537,000
Tax	126,900	153,500	134,250
Profit After Tax	380,700	460,500	402,750

ALHAJI TRANSPORT COMPANY LTD
Balance Sheet as of 31 Dec

Noncurrent Assets		2022		2023		2024
Building	418,000		407,000		396,000	
Equipment	1,200,000		900,000		600,000	
Motor Vehicles	270,000		180,000		90,000	
Furniture & Fixtures	294,000		218,000		142,000	
Total		2,182,000		1,705,000		1,228,000
Current Assets						
Inventory	35,000		45,000		58,000	
Receivables	625,000		650,000		1,998,000	
Prepayments	12,500		25,800		26,500	
Bank	120,000		669,550		135,000	
		792,500		1,390,350		2,217,500
Current Liabilities						
Trade Payables	455,000		485,600		525,000	
Overdraft	140,000		-		109,375	
Total Current Liabilities		595,000		485,600		634,375
Net Current Assets		197,500		904,750		1,583,125
Net Current Assets						
Net Assets		2,379,500		2,609,750		2,811,125

Financed by			
Capital	2,000,000	2,000,000	2,000,000
Share Capital	379,500	609,750	811,125
Income Surplus	2,379,500	2,609,750	2,811,125

RATIOS

	2022	2023	2024
Sales Growth		18.92%	11.82%
Receivable Days	62	54	148
Payable Days	74	64	61
Inventory Turnover Days	6	6	7
Gross Margin	39%	37%	36%
Overhead %	9%	8%	10%
Net Margin	13.72%	13.95%	10.91%
Interest Cover	5.23	4.96	3.08
Current Ratio	1.33	2.86	3.50
Quick Ratio	1.27	2.77	3.40
Inventory to Sales	1%	1%	1%
Receivables to Sales	17%	15%	41%
Payables to Sales	12%	11%	11%
Gearing	5.88%	0.00%	3.89%

As a Credit Risk Manager of your Bank, you are required to:

a) Identify and explain five (5) each of External and Internal Non-Financial Information you will analyze to complement the Financial Analysis. **[10 marks]**

b) Comment on the Financial Performance of the company taking into consideration the Capital, Profitability, Liquidity, and Debt Repayment. **[10 marks]**

[Total: 20 marks]

QUESTION 2

You are a Credit Portfolio Manager at a Bank, and you noticed a significant increase in Non-Performing Loans (NPLs) within a particular sector.

a) How would you assess the potential impact of these Credit Losses on the bank's Financial Performance? [State and discuss four (4) steps in your answer] **[8 marks]**

b) What risk mitigation strategies would you implement? [**2 marks**]

c) As a Risk Analyst, you have been assigned to calculate the Value at Risk (VaR) for a Credit Portfolio using Historical Simulation. However, you encounter a lack of sufficient historical data for certain credit exposures.
How would you address this challenge and accurately estimate the VaR for the portfolio? [**10 marks**]
[Total: 20 marks]

QUESTION 3

a) Mr. Adu Mensah is a homeowner who wants to purchase a new house before selling his existing property. He is interested in obtaining a Purchase Bridge Loan to cover the down payment and closing costs for the new house. The selling price of Mr. Adu Mensah's existing house is GHC500, 000, and the cost of the new house is GHC800,000. He currently has an outstanding mortgage of GHC300, 000 on his existing house. Mr. Adu Mensah has found a potential buyer for his existing house, and the sales closing is scheduled to occur in three (3) months.
As a lender, considering Mr. Adu Mensah's request for a Purchase Bridge Loan, what factors should you consider when evaluating the feasibility of his loan request? [**12 marks**]

b) Asematome Company Limited, a long-time client of your bank, has recently started to frequently request loan extensions and has missed a few minor repayments. Furthermore, the company's latest Financial Statements show a steady decline in Sales and an increase in Inventory levels.

i. As a Credit Analyst at the bank, how would you interpret these signals? **[2 marks]**

ii. What three (3) actions would you recommend? **[6 marks]**
[Total: 20 marks]