

DO NOT REMOVE THE QUESTION PAPER FROM THE EXAMINATION HALL

UNIVERSITY OF LONDON

CENTRE FOR FINANCIAL AND MANAGEMENT STUDIES

MBA Examination
MSc Examination
Postgraduate Diploma Examination
for External Students

91DFMC222
91DFMC322

FINANCE (BANKING)
FINANCE (ECONOMIC POLICY)
FINANCE (FINANCIAL SECTOR MANAGEMENT)
FINANCE AND FINANCIAL LAW

Bank Financial Management

Specimen Examination

This is a specimen examination paper designed to show you the type of examination you will have at the end of this module. The number of questions and the structure of the examination will be the same, but the wording and requirements of each question will be different.

The examination must be completed in **THREE** hours. Answer **THREE** questions, *at least* **ONE** from **EACH** section.

The examiners give equal weight to each question; therefore, you are advised to distribute your time approximately equally between three questions.

The examiners wish to see evidence of your ability to use technical models and of your ability to critically discuss their mechanisms and application.

PLEASE TURN OVER

Answer **THREE** questions, at least **ONE** from **EACH** section.

Section A

Answer at least ONE question from this section.

1. Explain the meaning of banks' credit risk transfer and the main techniques of credit risk transfer developed since the mid 1990s. Discuss the advantages and disadvantages a bank may experience by moving from traditional banking to a credit risk transfer model.
2. Discuss the arguments for and against 'mark to market' accounting by banks.
3. Discuss the main ways in which bank performance is evaluated. Pay particular attention to the Return-on-Assets (ROA) and Return-on-Equity (ROE) decomposition analysis in your answer.
4. Evaluate the common measures of bank liquidity and examine the importance of liquidity management for profitability.

Section B

Answer at least ONE question from this section.

5. Discuss the main differences between GAP and Duration Analysis for the management of banks' interest-rate risk. Why are both techniques regarded as 'inadequate' for the purposes of interest-rate risk management?
6. Explain and assess the view that the most appropriate measures of banks' funding costs are:
 - a) marginal, and *(50% of the marks)*
 - b) market-based. *(50% of the marks)*
7. Examine how credit risk should be handled in bank loan pricing. Consider how a bank might protect itself from excessive credit risk exposure through its loan pricing and related techniques.
8. Explain the meaning of banks' Tier I capital and discuss the arguments for and against including subordinated debt in it.

[END OF EXAMINATION]