

UNIVERSITY OF BRADFORD

GLOBAL BANKING OPERATIONS & STRATEGY

MAN4330M

6<sup>th</sup> May 2014

16:00 – 17:00 hours

*Main*

This is a **CLOSED BOOK** examination

Answer **TWO** out of the **SIX** questions

Students are allowed to use calculators

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1. Critically discuss and explain how you would assess bank performance. Why is it important for financial analysts and financial regulators to analyse past and current trends of bank performance?  
[100 %]
  
2. Suppose that a bank has equity of £200, interest expense of £90, provision for loan loss (P) = £20, net noninterest income of (-£15), and a tax rate of 34%. What is the minimum total interest revenue required to give a ROE of 15%? (**£ in millions**)? Please comment briefly on the relationship between ROE (return on equity) and its relationship with interest revenue.  
[100 %]
  
3. Critically explain how Z-score (Altman's model) can be applied in the banking industry.  
[100 %]
  
4. Discuss the process of ratings assignments with an emphasis on ratings determinant and the explanatory power of rating assignments. Provide a critical analysis of the role of Ratings Agencies in the financial market during the global financial crisis and propose how ratings assignments can be improved.  
[100 %]
  
5. Explain and critically discuss the economic rationale for bank mergers. Support your discussion by examples (real recent bank mergers).  
[100 %]
  
6. A house owner is lent \$90,000 to buy a house which is worth \$100,000. The repayment in instalments of \$5000 per year over the next 18 years. You know that price of real sector fluctuated up and down over the years with standard deviation of plus (minus) 10%. However, we want to use a higher level of confidence 95% (1.96 standard deviations). Please complete the table provided and insert missing values. You have to outline your calculation. Please provide an interpretation of potential credit exposure.

Time	Loan outstanding	Potential percentage change in house prices (cumulative)	Potential Value of Collateral	Potential exposure	Credit
0	90,000	0.00	100,000	0	
1	85,000	19.60	80,400	4,600	
2	80,000				
3	75,000				

[100 %]