

EXAMINATION

22 October 2018 (am)

Subject F206 – Banking Specialist Applications

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

- 1. Follow log in and saving instructions issued to you at the exam venue.*
- 2. Save your work throughout the exam.*
- 3. You are required to submit your answers in Word format only using the template provided. You MAY NOT use any other computer program (e.g. Excel) during the examination.*
- 4. You have 15 minutes at the start of the exam in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.*
- 5. You must not start typing your answers until instructed to do so by the invigilator/supervisor.*
- 6. Mark allocations are shown in brackets.*
- 7. Attempt all questions, beginning your answer to each question on a new page.*
- 8. You should show calculations where this is appropriate. If necessary, an answer book may be used for this purpose.*

Note: The Actuarial Society of South Africa will not be held responsible for loss of data where candidates have not followed instructions as set out above.

AT THE END OF THE EXAMINATION

**Check that you have saved your work as per instructions given to you.
Hand in your question paper with any additional sheets firmly attached.**

<p>In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator from the approved list.</p>

QUESTION 1

Bank C is medium sized South African Bank. Bank C has been operating across Southern Africa (RSA, Botswana, and Namibia) and has both Retail and Corporate lending portfolios. Bank C is required to perform an ICAAP.

- i. Outline the components of Pillar II, the Supervisory Review Process, of Basel II. [6]
- ii. Describe the key factors in implementing and presenting an ICAAP. [12]

Risk indicators associated with the four main banks (including Bank C) operating in South Africa are shown below:

Risk Indicator	Risk Subtype	Bank A	Bank B	Bank C	Bank D
General Risk Indicators (size)		Small	Small	Medium	Large
Specific Risks					
	Credit Risk				
	Equity Risk				
	Concentration Risk				
	<i>Foreign currency loans</i>				
	<i>Industries</i>				
	<i>Size classes</i>				
	<i>Country risk</i>				
Market Risks					
Interest Rate Risk in the Banking Book					
Operational Risks					
Liquidity Risks					
Other Risks					

	High Significance
	Medium Significance
	Low Significance

- iii. Compare and contrast the banks, and comment on the most suitable approach for measuring its risks and capital requirements. [10]

[Total 28]

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QUESTION 2

You are the Credit Head for the Home loans product of ABC bank. You are reviewing the current credit policies and credit offering of your division and noticed the following information regarding the portfolio:

Maximum Loan to Value (LTV) as per risk appetite: 90%.

Current LTV applied in application scoring: Across all credit scoring ranges a maximum LTV of 85% is applied.

New Loan Applications - Last 12 Months	
LTV Band	Number Of Applications
85% and less	240 000
85% to 90%	90 000
90% to 95%	60 000
95% to 100%	72 000
100% to 108%	90 000
108% and above	48 000
Total	<u>600 000</u>

You are exploring actions to increase approval rates and product sales and as such want to make some adjustments to the LTV requirements (without increasing the overall risk to the portfolio significantly).

- i. Discuss potential actions that you could implement and the considerations you would take before implementation. [13]
- ii. Discuss other possible rules or restrictions that could be in place as part of your application process that may cause the approval rates overall to be particularly low. Include suggestions to improve the ultimate approval rate. [6]

The credit head of the unsecured loans division has suggested that an unsecured loan is offered to the mortgage applicants to cover part or all of the required initial deposit. This offering would be up to a maximum amount of R250,000. He suggests the loan be treated either as a separate loan or as a deposit loan offered with the Home loan product so that it is treated as a single product offering to the customer. However, any credit losses on the combined loan will always be recognised and incurred by the unsecured loan product first.

- iii. Outline the challenges and considerations with implementing the suggestion. [18]

[Total 37]

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QUESTION 3

You are an Actuary in the debt capital markets team of a large South African Bank, Bank XYZ.

- i. Define what traditional and synthetic securitisations are.

[5]

Bank XYZ was one of the first banks in South African to originate securitisations and has been a frequent originator of securitised assets. However, during the financial crisis of 2007/2008 volumes reduced significantly. Currently Bank XYZ provides some liquidity facilities to securitisation special purpose vehicles but does not currently originate any securitisations.

- ii. Explain reasons why Bank XYZ may not currently originate securitisations.

[10]

The head of Bank XYZ Homeloans has completed a business case with your team to establish the viability of a traditional home loan securitisation. The business case was approved through the appropriate governance structures.

- iii. Explain what considerations you covered in the business case. You should centre your discussion on the regulatory considerations.

[10]

[Total 25]

QUESTION 4

You are responsible for capital management of the South African branch of a large international bank. The local Chief Financial Officer has read an article on Basel IV and has approached you for more information.

- i. Discuss Basel IV and its potential implications for your organisation to the CFO.

[Total 10]

[GRAND TOTAL 100]

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END OF EXAMINATION