Module Outline
ECF on Credit Risk Management (CRM)
Module 2 "Fundamental Credit Risk Analysis"

Benchmarked HKQF Level:	5
No. of Credits:	15
Total Notional Learning Hours:	150
a) Class contact hours:	*21 hours (3-hour per session x 7)*
b) Self-study hours:	*127 hours*
c) Assessment hours:	*2 hours*
Pre-requisite:	NA

Module Objective

This module aims to provide candidates with the knowledge and skills of applying financial and non-financial analysis. It helps candidates assess customers' financial needs and credit worthiness in order to define their strengths and make recommendation or determine their eligibility and credit limits on lending.

Module Intended Outcomes (MIOs) and Units of Competencies (UoCs)

Upon completion of the Module 2, learners should be able to:

MIOs	Intended Outcomes / Competence	*Unit of Competencies (UoCs)
MIO-1	Apply financial and non-financial analysis to assess client's financial positions, needs and credit worthiness	109256L5 109257L5 109260L5 109502L5
MIO-2	Analyse clients' financial strengths and review the credit rating of the clients	
MIO-3	Calculate potential credit losses for determining eligibility and credit limits for lending	
MIO-4	Evaluate the analysis results and initiate appropriate recommendation on the customer's credit worthiness, repayment ability and risk level	

**Note: For the details of the UoCs, please refer to the Specification of Competency Standards (SCS) of Retail Banking and Corporate & Commercial Banking which were developed by HKCAAVQ.*

Assessment

Examination duration:	2 hours
Examination format:	Multiple Choice Questions (MCQ) with 60 questions
Pass mark:	60%

Syllabus

Chapter 1: Key Accounting Concepts and Rules Relevant to Lenders	
1.1	**Accounting standards**
1.2	**Key accounting concepts and rules for lenders**
1.2.1	- Conceptual framework for financial reporting
1.2.2	- Objective of general purpose financial reporting
1.2.3	- Qualitative characteristics of financial reporting
1.2.4	- Recognition and derecognition
1.2.5	- Measurement
1.2.6	- Capital and capital maintenance
1.3	**Credit analysis for lenders**
1.3.1	- Goal of credit analysis
1.3.2	- Credit analysis process
1.3.3	- Scope of credit analysis
1.3.4	- The 6 C's Model
1.3.5	- Financial risk and business risk
1.4	**Quantitative analysis for lenders**
1.5	**Qualitative analysis for lenders**
1.5.1	- PESTLE analysis
1.5.2	- Industry life cycle model
1.5.3	- SWOT analysis
1.5.4	- Five forces model
1.5.5	- Value chain analysis
1.6	**Credit risk rating and credit decision**
1.6.1	- Credit risk
1.6.2	- External credit risk rating

1.6.3	-	Internal credit risk rating
1.6.4	-	Credit decision
Chapter 2: Interpretation and Critical Analysis of Financial Statements from a Lender's Perspective		
2.1	**Balance sheet**	
2.1.1	-	Assets
2.1.2	-	Liabilities
2.1.3	-	Equity
2.1.4	-	Balance Sheet Analysis for Lenders
2.1.5	-	Limitations of balance sheet
2.2	**Profit and loss account**	
2.2.1	-	Other comprehensive income
2.2.2	-	Components of profit and loss account
2.2.3	-	Profit and loss account analysis for lenders
2.2.4	-	Limitations of profit and loss account
2.3	**Cash flow statement**	
2.3.1	-	Components of cash flow statement
2.3.2	-	Cash flow statement analysis for lenders
2.3.3	-	Limitations of cash flow statement
2.4	**Notes to the accounts**	
2.5	**Auditor's opinion**	
2.6	**Other relevant market information and practices**	
Chapter 3: Financial Ratio Analysis		
3.1	**Common size analysis and financial ratio analysis**	
3.1.1	-	Common size analysis
3.1.2	-	Financial ratio analysis
3.2	**Profitability ratios**	
3.2.1	-	Return on assets (ROA)
3.2.2	-	Return on equity (ROE)
3.2.3	-	Gross profit margin
3.2.4	-	Operating profit margin
3.2.5	-	Net profit margin

3.2.6	- Dividend payout ratio
3.2.7	- Issues relating to interpret profitability ratios
3.3	**Activity ratios**
3.3.1	- Sales to working capital ratio
3.3.2	- Inventory turnover
3.3.3	- Receivable turnover
3.3.4	- Payables turnover
3.3.5	- Fixed asset turnover
3.3.6	- Total asset turnover
3.3.7	- Issues relating to interpret activity ratio
3.4	**Liquidity ratios**
3.4.1	- Current ratio
3.4.2	- Quick ratio
3.4.3	- Cash ratio
3.4.4	- Cash conversion cycle
3.4.5	- Issues relating to interpret liquidity ratios
3.5	**Solvency ratios**
3.5.1	- Debt ratio
3.5.2	- Debt to equity ratio / gearing ratio
3.5.3	- Financial leverage ratio
3.5.4	- Long-term debt to total capital ratio
3.5.5	- Interest coverage ratio
3.5.6	- Issues relating to interpret solvency ratios
3.6	**Du Pont system**
3.7	**Analytical tools and technique**
3.7.1	- Trend analysis
3.7.2	- Cross-sectional analysis (peer group comparison)
3.7.3	- Integration of financial ratio
Chapter 4: Cash Flow Analysis	
4.1	**Cash and cash equivalents**
4.2	**Cash flow from operating activities**

4.2.1	-	Overview
4.2.2	-	Direct method
4.2.3	-	Indirect method
4.3	**Cash flow from investing activities**	
4.4	**Cash flow from financing activities**	
4.5	**Free cash flow**	
4.6	**Cash flow ratios**	
Chapter 5: Budgeting, Forecasting and Analysis		
5.1	**Budgeting and budget analysis**	
5.1.1	-	Financial forecasting and modelling
5.1.2	-	Budgeting
5.1.3	-	Different types of budgets
5.1.4	-	Budget analysis
5.1.5	-	Limitations of budget analysis
5.2	**Profit and loss account forecasting**	
5.3	**Pro forma profit and loss account analysis**	
5.4	**Balance sheet forecasting**	
5.5	**Pro forma balance sheet analysis**	
5.6	**Cash flow forecasting**	
5.6.1	-	Cash budget
5.6.2	-	Pro forma cash flow statement
5.6.3	-	Differences between cash budget and pro forma cash flow statement
5.7	**Cash budget analysis**	
5.8	**Pro form cash flow statement analysis**	
Chapter 6: Limitations of Financial Ratio Analysis and Creative Accounting		
6.1	**Limitations of financial ratio analysis**	
6.2	**Creative accounting practices**	
6.2.1	-	Choie of accounting policies
6.2.2	-	Fraudulent financial reporting
6.3	**Earnings manipulation**	
6.3.1	-	Recognising revenue too early

6.3.2	- Recognising fake revenue
6.3.3	- Recognising sustainable income using unsustainable activities
6.3.4	- Recognising current expenses in later periods
6.3.5	- Hiding current expenses or losses
6.3.6	- Recognising current revenue in later periods
6.3.7	- Recognising future expenses in current period
6.4	**Cash flow manipulation**
6.4.1	- Moving financing cash inflows to operating activities
6.4.2	- Moving operating cash outflows to other activities
6.4.3	- Reporting higher operating cash flow using unsustainable activities
6.4.4	- Other cash flow manipulation tricks
6.5	**Financial metric manipulation**
6.5.1	- Using misleading financial metrics
6.5.2	- Distorting balance sheet metrics
6.6	**Warning signals**

Recommended Readings

Essential Readings:

1. HKIB Study Guide of ECF-CRM Module 2: Fundamental Credit Risk Analysis. (2025).

Supplementary Readings:

1. Cudby, Adrian (2028). Commercial Lending, Principles and Practice. Kogan Page Publishers.
2. Yhip, Terence M. and Alagheband, M. D. (2020). The Practice of Lending: A Guide to Credit Analysis and Credit Risk. Springer.
3. Ziegel, A. (2015). Fundamentals of Credit and Credit Analysis. Mountain Mentors Associates.

Further Readings:

1. Alexander, David & et al. (2020). International Financial Reporting and Analysis. (8th ed). Cengage Learning.
2. Hong Kong Monetary Authority, (2022). Supervisory Policy Manual – Risk Based Supervisory Approach. (https://www.hkma.gov.hk/media/eng/doc/key-functions/banking-stability/supervisory-policy-manual/SA-1.pdf)
3. Schilit, H. (2018). Financial Shenanigans: How to Detect Accounting Gimmicks and Fraud in Financial Reports. (4th ed). McGraw Hill.