

Module Outline

Programme Title: Professional Certificate for ECF on Credit Risk Management (CRM)

Module Title: Fundamental Credit Risk Analysis (M2)

QF Level: 5

QF Credit: 15 (21 contact hours, 127 self-study hours and 2 examination hours)

Teaching/Training Activities: Training Class

Pre-requisite: N.A.

Remark: Exemption will be granted for practitioners passing CFA Level I, Module A – Financial Reporting and Module B – Corporate Financing of the Qualification Programme of HKICPA, or holding other equivalent academic / professional qualification in accounting and financial statements analysis

Programme Objective:

This programme has been developed with the aim to nurture a sustainable talent pool of credit risk management practitioners in the banking industry. Candidates will acquire technical skills, professional knowledge and conduct for entry-level and junior level of job roles in the credit function that take up a majority of credit risk responsibility in the credit process including credit initiation, evaluation, approval and monitoring of commercial credit business.

Programme Intended Learning Outcomes (PILOs) for M1, M2 and M3

Upon completion of the Programme, learners should be able to:

PILO 1:	Apply financial and non-financial analysis to assess customer's financial needs and credit worthiness
PILO 2:	Analyse information about customer's financial strength (customer's background, occupation/industry, income/revenue, financial condition/economic situation/legal situation, project evaluation, debt service capacity, credit history, etc.) and review the credit rating of the customer
PILO 3:	Calculate potential credit losses for determining eligibility and credit limits for lending
PILO 4:	Evaluate the analysis results and make appropriate recommendation on the customer's credit worthiness, repayment ability and risk level
PILO 5:	Develop the terms and conditions of credit facility such as application of the appropriate contractual interest rates based on internal policies, payment period and payment options, etc. according to customer's needs and results of risk assessments

PILO 6:	Determine the arrangement of credit facility such as access to funds, terms for the operating account etc. in order to minimize risks to the bank
PILO 7:	Examine the credit application in conformity of relevant policies, compliance and regulatory requirements
PILO 8:	Understand the fundamentals of monitoring credit assets portfolio and the recovery and work-out of problem loans

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 Learning Outcomes (MILOs) and Units of Competencies (UoCs)

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

MILO 1:	Apply financial and non-financial analysis to assess client's financial positions, needs and credit worthiness	BCSDLC501A BCSRBP501A BCCMCA501A BCCMCA502A
MILO 2:	Analyse clients' financial strengths and review the credit rating of the clients	
MILO 3:	Calculate potential credit losses for determining eligibility and credit limits for lending	
MILO 4:	Evaluate the analysis results and initiate appropriate recommendation on the customer's credit worthiness, repayment ability and risk level	

Assessment Activity

Type of Assessment Activity	PILO/MILO	Weighting (%)
Examination	MILO 1-4	100

Examination Format and Duration

Time allowed: 2 hours

The examination consists of: 60-70 Multiple Choice Questions

Examination passing rate: 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
1.3	- Credit analysis for lenders

1.4	- Quantitative analysis for lenders
1.5	- Qualitative analysis for lenders
1.6	- Credit risk rating and credit decision
Chapter 2: Interpretation and Critical Analysis of Financial Statements from a Lender's Perspective	
2.1	- Balance sheet
2.2	- Profit and loss account
2.3	- 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
3.2	- Profitability ratios
3.3	- Activity ratios
3.4	- Liquidity ratios
3.5	- Solvency ratios
3.6	- Du Pont system
3.7	- Analytical tools and technique
Chapter 4: Cash Flow Analysis	
4.1	- Cash and cash equivalents
4.2	- Cash flow from operating activities
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
5.2	- 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
5.7	- 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
6.3	- Earnings manipulation
6.4	- Cash flow manipulation

6.5	- Financial metric manipulation
6.6	- Warning signals

Recommended Readings

Essential Readings:

1. HKIB Study Guide – Fundamental Credit Risk Analysis

Supplementary Readings:

1. Mucha-Aydloft, J. (2007). *The Quick Guide to Small Business Budgeting*. (2nd ed.) San Diego Business Accounting Solutions.
2. The Hong Kong Institute of Bankers. (2012). *Bank Lending*. John Wiley & Sons.
3. Ziegel, A. (2014). *Fundamentals of Credit and Credit Analysis*. Mountain Mentors Associates.

Further Readings:

1. Alexander, David & et al. (2014). *Financial Reporting and Analysis*. (6th ed). Cengage Learning.
2. Day, A. (2013) *Mastering Financial Modeling in Microsoft® Excel*. (3rd ed). FT Press.
3. Fridson, M. & Fernando, A. (2011). *Financial Statement Analysis: A Practitioner’s Guide*. (4th ed). John Wiley & Sons.
4. Golden, T. W., Skalak, S. L. & Clayton, M. M. (2006). *A Guide to Forensic Accounting Investigation*. John Wiley & Sons.
5. Helfert & Erich A. (2001). *Financial Analysis Tools and Techniques: A Guide for Managers*. McGraw-Hill.
6. HKIB e-learning: Credit Risk Capital Calculation
7. Hong Kong Monetary Authority, “Risk Based Supervisory Approach,” in *Supervisory Manual*, 22 May 2010.
8. Jury, Timothy D. H. (2012). *Cash Flow Analysis and Forecasting: The Definitive Guide to Understanding and Using Published Cash Flow Data*. John Wiley & Sons.
9. Sagner, J. S. & Jacobs, H. (2011). *Handbook of Corporate Lending: A Guide for Bankers and Financial Managers*. Bank Credit Training Partners.
10. Schilit, H. M. (2018). *Financial Shenanigans: How to Detect Accounting Gimmicks and Fraud in Financial Reports*. (4th ed). McGraw Hill.
11. Shim, J. K., Siegel, J. G. & Shim, A. I. (2011). *Budgeting Basics and Beyond*. (4th ed). John Wiley & Sons.
12. The Hong Kong Institute of Bankers. (2012). *Credit Risk Management*. John Wiley & Sons.
13. 黃玲(2010),《破解上市公司易容術》，天窗出版社。