

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: CREDIT RISK ASSESSMENT 1 (IOBM – D204)**

**Date: Sunday, 22nd November 2020**

**Time Allocated: 3 Hours (13:30 – 16:30 Hours)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions; each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions; each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination, you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. Answer books without examination numbers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

9 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

1. Why is it so important for a banker to know there are different types of customers in respect of lending? Briefly mention **three** reasons. *(3 marks)*
2. You work in Winji Bank as a Credit Officer and your supervisor has asked you to prepare a write-up to a new member of staff on various types of borrowing customers. The supervisor has asked you to focus on the differences between a registered limited company and partnerships.

**Required**

Compare the two by providing **four** differences. *(12 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Your bank has been approached by a Mr. Taulasoni, a tobacco farmer based in the central region of Malawi. He would like to find out if he can get financial assistance for his tobacco farming business. As a Credit Manager, explain the types of credit facilities available to such farmers. *(6 marks)*
2. Briefly explain **five** general requirements for banks to lend to tobacco farmers in Malawi. *(9 marks)*

**(Total 15 marks)**

**QUESTION 3**

Working Capital is the lifeblood for any business as such must be managed properly. Briefly explain **four** components that must be managed to ensure the business is successful. **(Total 15 marks)**

**QUESTION 4**

You have been given the diagram below during your written interview with Linga Bank for the position of Credit Analyst. Study it carefully and answer the question that are to follow.

Buy Stock Sell Stock to Receive Cash

A B

(120 DAYS) (120 DAYS)

C D

(60 DAYS)

( ? )

Pay Creditors

**Refer to the diagram above for (a) and (b):**

1. Briefly explain activities denoted by A, B and C. *(3 marks)*
2. Calculate the Operating Cycle *(2 marks)*
3. There are three possible approaches to financing Working Capital and one of them is call the Moderate/Matching Maturities Approach. Briefly describe this approach with an aid of a diagram. *(10 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

During your first month with Linyangwa Bank as a Credit Analyst, your Manager has given you financial statements for a certain customer, a limited company. This customer would like to borrow a huge sum of money from your bank. Your Manager has high respect for you having learnt that you graduated with a distinction in your Banking Degree program majoring in Credit. He has asked you to look at the viability of the credit facility proposal submitted by this limited company by calculating and analyzing ratios from the financial statements given.

**Required**

In your response to your manager mention **five** well known major ratios most applicable for doing credit risk assessment and briefly explain their corresponding meaning and interpretation. **(Total 20 marks)**

**QUESTION 6**

As a Credit Specialist you have been asked to make a presentation to new members of staff joining your bank during their induction course. The focus area is that of Cash Flow Budget.

**Required**

Share **four** brief notes you are to use on the general guidelines to assist them be able to interpret Cash Flow Budget properly. **(Total 20 marks)**

**QUESTION 7**

1. Define Overtrading. *(1 mark)*
2. As a banker, mention **two** signs that would indicate overtrading when analyzing bank statements for your customer? *(4 marks)*
3. What are the effects of overtrading in a business? Mention **five (5)** effects.

*(15 marks)*

**(Total 20 marks)**

**QUESTION 8**

Chabechabe Bakery is a new business in town specializing in baking and selling hot round bread. However, the owners of the bakery are not conversant with accounting let alone banking principles. As such, they have approached you to assist them in assessing whether they are profitable or not.

You have been given the following information from the owner:

Selling Price per bread - K550.00

Variable Cost per bread - K300.00

Total Fixed Cost per month- K2, 000,000.00

**Required**

1. Using the Contribution Margin Method, calculate Break Even in units. *(1 mark)*
2. Briefly explain **three** importance of Break-Even Analysis in Credit Risk Assessment by the banker. *(9 marks)*
3. When using Break-Even Analysis Model, every banker knows that there are assumptions and limitations to it. Briefly discuss any **five** of these assumptions and/or limitations. *(10 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**