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**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

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

**Date: Monday, 30th April 2012**

**Time Allocated: 3 hours (13:30 – 16:30 pm)**

**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 sheets without examination numbers will not be marked.**

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

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

## There are mainly two reasons why businesses borrow money, namely to acquire or purchase fixed assets and/or intangible assets and secondly to finance working capital needs.

1. Define intangible assets.  *(1 mark)*

#### Why are banks in Malawi not keen to provide finance for intangibles? *(2 mark)*

1. Mbwembwembwe, a renowned tobacco farmer from Kasusu District has approached your bank with a K10 million loan request to purchase tractors for this farming season. Briefly explain six general requirements you need to take into account for such type of an application to be considered for approval.  *(12 marks)*

**(Total 15 marks)**

**QUESTION 2**

### Briefly describe five consequences of overtrading. (Total 15 marks)

## QUESTION 3

## There are a number of models that are used to forecast financial failures. Briefly explain two advantages and three limitations of these models. (Total 15 marks)

**QUESTION 4**

### Why should companies manage working capital? Give three reasons. *(6 marks)*

### Briefly explain three common approaches to financing working capital. *(9 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section.

**QUESTION 5**

Mention **five** main categories of business ratios and briefly explain their respective meanings.  **(Total 20 marks)**

**QUESTION 6**

### When doing financial analysis of a company, how would a credit / lending officer know that the company is overtrading? Give five indicators. (Total 20 marks)

### QUESTION 7

### Explain four most crucial components of working capital that must be managed to enable a company remain vibrant. (Total 20 marks)

QUESTION 8

As an experienced Credit Officer at your bank, you have been requested to train a new officer who has been attached to your department. One of the areas to tackle with the new officer is cash-flow budgets.

Briefly explain the general guidelines you would tell the new officer to be following when interpreting cash-flow budgets. Explain four guidelines. (Total 20 marks)

**END OF EXAMINATION PAPER**