

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

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

**Date: Sunday, 28th April 2013**

**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 20 multiple questions, each question carries 2 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 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

Why is it important for lending officials to have an appreciation of their borrowers’ needs and the way their businesses are structured? **(Total 15 marks)**

**QUESTION 2**

1. From a bank lender’s perspective, what are the challenges that are normally associated with sole proprietors? *(8 marks)*
2. What are the main reasons that are usually associated with businesses’ need to borrow from banks and/or other sources? *(7 marks)*

**(Total 15 marks)**

**QUESTION 3**

Chatonda, the son of the proprietor of Zabweka Enterprises, has returned from USA and his ageing father desires that he should join him and eventually take over the running of the business. He holds an MBA degree from Harvard. Prior to his return, he had worked for a bank in New York for two years. He does not seem to hold your bank in high esteem. He reckons that your bank seems to be too rigid in its approach to lending to small businesses, unlike the bank he had worked with.

He approaches you with a proposal that, if it is accepted, it would result into Zabweka Enterprises having shops scattered all over the country hence being at par with PTC outlets. Currently the business has only one outlet at Ginnery Corner.

**Required:**

1. Provide reasons that you may wish to incorporate in your escalation to your bank’s Credit Committee in support of Chatonda’s proposal. *(7 marks)*
2. If you decide to turn down the proposal, what would be your justifications for doing so? *(8 marks)*

***(*Total 15 marks)**

**QUESTION 4**

What is the significance of stock turnover ratio to both the business and the lending bank? **(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

As a lending official, what would you require to know and to have on the table, as your considerations to take into account when faced with a proposal to lend to a tobacco farmer?

**(Total 20 marks)**

**QUESTION 6**

From a lender’s perspective, explain the critical factors that need to be managed properly by a business in order for it to succeed**. (Total 20 marks)**

**QUESTION 7**

1. The main adverse effect of overtrading to a business is the storage of cash. In which areas does this problem manifest itself? *(10 marks)*
2. What are the advantages and limitations of financial forecasting models? *(10 marks)*

**(Total 20 marks)**

**QUESTION 8**

Explain the criteria used to determine the ideal level of working capital in a business.

**(Total 20 marks)**

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**END OF THE EXAMINATION PAPER**