

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: CRDIT RISK ASSESSMENT 2 (IOBM – AD303)**

**Date: Sunday, 6th November 2016**

**Time Allocated: 3 hours (08:00 – 11:00 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**

It is said that bank’s revaluation of assets can bring about substantial different financial picture in comparison to the one reflected in the customer’s financial statements.

1. Explain what effects Assets Revaluation can have on the following

* Return on Assets
* Return on Equity
* Financial Leverage
* Turnover of fixed assets
* Solvency ratio  *(10 marks)*

1. Briefly explain **five** common elements that are prevalent in most risks.

*(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

You have been given ratios for two different companies as shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Company A** | **2004** | **2005** | **2006** |
| Net Gearing | 29 | 53 | 54 |
| Current Ratio | 1.24:1 | 1.20:1 | 1.16:1 |
| Credit given (days) | 68 | 89 | 77 |
| Credit taken (taken) | 134 | 134 | 137 |
| Stock turnover (days) | 53 | 62 | 81 |
| Gross margin | 48 | 52 | 48 |
| Interest cover (times) | 17.1 | 2.2 | 2.3 |

|  |  |  |  |
| --- | --- | --- | --- |
| **Company B** | **2004** | **2005** | **2006** |
| Net Gearing | 44 | 63 | - |
| Current Ratio | 0.30:1 | 0.32:1 | 0.80:1 |
| Credit given (days) | 7 | 6 | 4 |
| Credit taken (taken) | 71 | 65 | 56 |
| Stock turnover (days) | 66 | 66 | 51 |
| Gross margin | 65 | 63 | 62 |
| Interest cover (times) | 2.8 | 2.2 | 5.1 |

**Required**

Interpret the all the ratios in both companies from 2004 to 2006. **(Total 15 marks)**

**QUESTION 3**

1. Explain how Banker’s Acceptances (BA) work as a form of short-term finance

*(5 marks)*

1. Dalitso Trading is a Malawian exporter of legumes which has received a Banker’s Acceptance(BA) maturing in 90 days time, but would like to discount it on the secondary market because it has liquidity problems. Full details of the BA are as follows:

* Face value of the BA: USD25,000.00
* Discount rate: 12%
* Tenure of BA: 90 days
* Commission: 1% per annum
* Stamp duty: 5t / K100
* USD/MWK exchange rate: 750

**Required**

Calculate how much Dalitso Trading will receive if it discounts the BA.  *(6 marks)*

1. Illustrate **two** advantages and **two** disadvantages to a business of using Trade Creditors as means of short-term finance. *(4 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Compare and contrast Ordinary shares with Debentures as a form of long term finance.  *(10 marks)*
2. Describe **two** types of mortgage loans that can be accessed in Malawi.

*(5 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

Discuss the advantages and limitations of Credit Scoring Models as a means of Credit Risk Assessment. **(Total 20 marks)**

**QUESTION 6**

Analyzing non-financials is one the important steps taken when doing Credit Risk Assessment.

Explain how Michael Porter’s Model help management and Lending Officers to understand the external environment of the business it is operating.

**(Total 20 marks)**

**QUESTION 7**

Explain how Letters of Credits differ from Guarantees, and explain clearly how both methods of finance are used **(Total 20 marks)**

**QUESTION 8**

It is said that most of the risks in a bank are interrelated. Define and illustrate how the following risks relate to or influence Credit Risk.

1. Operational Risk  *(4 marks)*
2. Compliance Risk & Regulatory Risk  *(4 marks)*
3. Liquidity Risk  *(4 marks)*
4. Capital Risk *(4 marks)*
5. People Risk *(4 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**