

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: CREDIT RISK ASSESSMENT 2 (IOBM – AD 303)**

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

**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**

What are the advantages and limitations of lending on an unsecured basis?

**(Total 15 marks)**

**QUESTION 2**

Describe the procedure that you would follow when considering to a security from a limited company by way of a debenture.  **(Total 15 marks)**

**QUESTION 3**

What are the advantages and disadvantages of a guarantee as a form of security in support of a bank borrowing?  **(Total 15 marks)**

**QUESTION 4**

1. Briefly explain how you understand by the term risk-return trade-off.

*(2 marks)*

1. Briefly explain **three** factors that influence risk preferences.  *(3 marks)*
2. Explain how the credit policy of a bank would affect the credit risk. *(10 marks)*

***(*Total 15 marks*)***

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

1. Who are the parties and/or circumstances that generally banks would wish to tread with care when dealing with them in order to avoid an imputation of undue influence?  *(10 marks)*
2. With brief comments, outline the procedure to be followed when taking a guarantee as security.  *(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

Why do lending bankers place so much attention to the assessment of the Safety Principle?  ***(Total 20 marks)***

**QUESTION 7**

From a purely non-financial perspective, state how a lending banker can use Michael Porter’s Five Forces Model to analyse a credit proposal.  ***(Total 20 marks)***

**QUESTION 8**

Explain **four** main internal factors that play a crucial role in influencing the credit risk in a bank.  ***(Total 20 marks)***

**END OF EXAMINATION PAPER**