

**INSTITUTE OF BANKERS IN MALAWI**

**CERTIFICATE IN BANKING EXAMINATION**

**SUBJECT: INTRODUCTION TO BANKING (IOBM – C104)**

**Date: Thursday, 17th May 2018**

**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 20 multiple questions, each question carries 2 marks.

Answer **ALL** questions.

3 Section B consists of 5 questions, each question carries 20 marks. Answer **ANY THREE** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when 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. All answer books without examination number 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 (40 MARKS)**

Answer **ALL** questions from this section by circling the right answers in the answer sheet provided.

1. The following is a classification of money.
2. Fiat Money
3. United States Dollars
4. Coins
5. Soiled notes
6. If the LRR is at 7.5%, a bank with a deposit base of K200mio, should keep at least the following amount in its account at RBM:
7. K20mio
8. K185mio
9. K15mio
10. K107.5mio
11. The following is a number that is found on the top right corner of a cheque, 05:07:80. What does 07 represent?
12. Area code of issuing branch of a bank
13. Bank identification number
14. Branch number
15. Company registration number
16. Which of the following is not a commercial banking service?
17. Loans and advances
18. Insurance service
19. Payment services
20. Buying and selling shares
21. Among the following crossings, which ones relate to cheques
22. General crossing
23. Zebra crossing
24. Special crossing
25. (ii) and (iii)
26. (i) and (iii)
27. All of the above
28. None of the above
29. What does the abbreviation LRR stand for?
30. Liquidity reserve requirement
31. Liquidity ratio requirement
32. Loans ratio requirement
33. Lowest reserve ratio
34. Which market is characterized by short term maturities? Mostly less than one year maturities.
35. Primary market
36. Capital market
37. Secondary market
38. Money market
39. A cheque issued by a bank drawn on itself to guarantee that any person that gets the cheque will be paid is called;
40. Special clearance
41. Authorized cheque
42. Bank certified cheque
43. Bank guaranteed cheque
44. Which of the following markets are classified based on maturity of the security
45. Primary and secondary market
46. Capital markets and money markets
47. Loans and deposits markets
48. Long-term and short-term markets
49. The following are indicators of money laundering
50. Large cash payments
51. Buying of foreign cash
52. Unexpected pay off of a problem loan
53. i and ii
54. ii and iii
55. i and iii
56. all of the above
57. A short term debt instrument issued by a large bank or a well- known corporation is called;
58. Treasury Bill
59. Commercial Paper
60. Negotiable Bank Certificate of Deposit
61. Bankers’ Acceptance
62. Complete the following statement: ‘The term ……… is used to describe the process of collecting payment for cheques deposited into the accounts of our customers which are issued by customers of other banks.
63. Clearing
64. Cheque deposits
65. MALSWITCH
66. ECCH
67. Specially designed companies that obtain funds from their customers and invest these funds are called:
68. Finance companies
69. Discount houses
70. Mutual funds companies
71. Asset Management companies
72. The ability by the central bank to influence commercial banks to comply to expected patterns without enforcements or directives is called;
73. Moral suasion
74. Negotiation
75. Open market operations
76. Discounting
77. The tremendous changing pattern in banking can be attributed to, among other things;
78. Political changes
79. Population changes
80. Financial deregulation
81. Climate changes
82. What is the major resultant effect of uncontrolled credit creation?
83. Discounted loans
84. Inflation
85. Depression
86. Increase in lending rates.
87. Which motive would cause motorists to respond to a rumour that prices of fuel would be reduced by delaying to purchase fuel now?
88. Transaction motive
89. Precautionary motive
90. Speculative motive
91. Deflation motive
92. What is the major resultant effect of uncontrolled credit creation?
93. Discounted loans
94. Inflation
95. Depression
96. Increase in lending rates.
97. What is the main danger of a liberalized economy?
98. Stability in the local currency cannot be guaranteed
99. Excess demand is unavoidable
100. Financial institutions will make extra ordinary profits
101. The economy will collapse
102. A 91 day REPO where the discount house offers the investor the option of accessing half of his money before maturity is called:
103. Call money
104. Negotiable certificate of deposit
105. Callable back
106. Loan guarantee

**SECTION B (60 MARKS)**

Answer **ANY THREE** questions from this section

**QUESTION 2**

The introduction of several banks in Malawi in the 1990s, transformed tremendously how banking is done as regard customer service. However, in the last three years, some banks were closed:

**Required**

1. Give **three** factors that led to intensive banking competition in the global banking sector.  *(6 marks)*
2. In employing signs of great attitude, explain **three** points that you can recommend to employees who have migrated to other banks through an acquisition. *(6 marks)*
3. Define the following instruments as related to financial institutions:
4. Treasury Bill
5. Local Registered Stock
6. Commercial paper
7. Negotiable Certificate of Deposit.  *(8 marks)*

**(Total 20 marks)**

**QUESTION 3**

1. Define money and its role. *(4 marks)*
2. Definition of money supply and money demand. *(4 marks)*
3. What are the **three** categories of money? *(3 marks)*

1. Outline with explanations the motives of people holding money.  *(9 marks)*

**(Total 20 marks)**

**QUESTION 4**

In 2017, The Reserve Bank of Malawi reduced the policy rate that made commercial banks to drop both the lending and deposit rates. In such, you have been asked to present a paper on the effects of these de-escalations by addressing the following:

1. Define a commercial bank.  *(2 marks)*
2. Explain the **three** main sources of revenue for commercial banks. *(6 marks)*
3. Advise how any **two** of the three main sources of revenue has been affected by the reduction in the policy rate by RBM. *(2 marks)*
4. Outline with explanations **five** core functions of the Reserve Bank of Malawi. *(10 marks)*

**(Total 20 marks)**

**QUESTION 5**

Some of the banks in Malawi have started getting biometric data when opening accounts, and also for old customers, in view of the KYC principal, hence no need to obtain references when opening accounts.

**Required**

1. What do you know by the term KYC? *(3 marks)*
2. How will the Malawi National ID help in KYC? Explain clearly. *(3 marks)*
3. Under what **four** circumstances one would be proven to have committed an offence of money laundering?  *(8 marks)*
4. Lack of sound KYC principles can subject a financial institution to serious risks that can affect a business. Explain any **three** of the risks. *(6 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Mention the correct endorsement which you can put on each of the following cheques. Support your answer by indicating the reason for putting the suggested endorsement and the words to be used which will appear on the cheque.

**Required**

1. A cheque presented to a bank teller for cash. *(4 marks)*
2. A cheque issued to Royal Heritage Academy in respect of school fees for your son. *(4 marks)*
3. A cheque payable to yourself which you would like to endorse to John Banda knowing that John may wish to use same cheque to settle his debt with another person *(4 marks)*
4. A cheque issued to an agent who intends to pay into the account of a principal contractor. *(4 marks)*
5. What is the difference between a general crossing and a special crossing? Give examples. *(4 marks)*

(**Total 20 marks)**

**END OF THE EXAMINATION PAPER**