

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: RISK ANALYSIS AND MANAGEMENT (IOBM – AD305)**

**Date: Monday, 13th May 2019**

**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**

A new commercial bank, with more than ten branches across Malawi, has been established, and that you have been appointed as a Risk manager. In order to manage risk, you have been requested to consult and come up with Internal Controls that would enhance control environment.

**Required**

1. Name any major **five** internal controls that would be applicable in the branch environment. *(5 marks)*
2. Briefly explain on how **each** of these internal controls would be used to manage risks in the branches.  *(10 marks)*

**(Total 15 marks)**

**QUESTION 2**

Yakwathu bank is a local bank with two branches in the city of Blantyre. One of the branches, referred to as Mudi branch, has been struggling to become profitable, let alone to breakeven. As a new branch manager, you have been given a task to make the branch become profitable in the next three months in order to manage both Strategic Risk and Reputational Risk.

**Required**

1. On the Revenue side, identify **three** areas that you would concentrate in order to improve income, and what you would do to the three areas that you have identified.

*(9 marks)*

1. On the Expenditure side, identify **two** areas that you would concentrate in order to minimise expenditure, and what you would do to the two areas that you have identified. *(6 marks)*

**(Total 15 marks)**

**QUESTION 3**

Basel II Capital Accord was introduced in 2006 to replace the Basel I Accord and the changes that were introduced in the Basel II Accord to address these weaknesses.

1. Discuss the weaknesses that were observed in the Basel I Accord and the changes that were introduced in the Basel II Accord to address the weaknesses. *(12 marks)*
2. A bank is holding K600m capital for Credit Risk and the minimum regulatory capital adequacy ratio is 10%. How much credit risk weighted assets are on its balance sheet if he bank risk appetite is to maintain buffer capital of 2% at all times. *(3 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Compare and contrast Fixed Exchange Rate system with Floating Exchange rate System. *(9 marks)*
2. The following is an extract of exchange rates from an Authorised Dealer Bank:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| DATE | CURRENCY | CAD\*\* | GBP\* | EUR\* | JPY\*\* | MWK\*\* |
| 01.11.2015 | RATE / USD | 1.0003 | 1.6127 | 1.2960 | 80.0200 | 313.2300 |
| 08.11.2015 | RATE / USD | 0.9111 | 1.5888 | 1.2960 | 80.0310 | 318.0000 |

NOTE: \* 1 unit of the currency = so many USD

\*\* 1 unit of USD = so many of the currency

Convert the following amounts to MWK

1. JPY100,000 on the 8th November 2015. *(3 marks)*
2. GBP on the 1 November 2015. *(3 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

Strategic risk is one of the most important risks in any organization, and needs close monitoring.

**Required**

1. Discuss any **five** instances in which you would consider strategic risk as **low.**

*(10 marks)*

1. Discuss any **five** instances in which you would consider strategic risk as **high.**

*(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. Discuss the **five** main functions of Liquidity. *(10 marks)*
2. Mention **four** sources of funds in a bank set up. *(4 marks)*
3. What are the potential use of funds in a bank? Name **six** of them. *(6 marks)*

**(Total 20 marks)**

**QUESTION 7**

There are many principles of Sound Corporate Governance. Discuss any f**ive** principles. **(Total 20 marks)**

**QUESTION 8**

Discuss **five** requirements of effective Credit Risk Management.

**(Total 20 marks)**

**END OF EXAMINATION PAPER**