

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

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

**Date: Monday, 12th November 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 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**

1. A UK firm imports $1000 goods from US supplier when exchange rate is GBP1=$1.5. How much money should the UK firm pay the US supplier? *(3 marks)*
2. Assuming that it takes three weeks for the UK firm to receive the imports and when the UK firm goes to pay, the exchange rate has changed to GBP1=$1.4. How much money should the UK firm pay the US supplier? *(3 marks)*

**1000/1.4 = GBP714.29**

If the pound has strengthened against the dollar, say GBP1=$2, how much would the UK importer pay? (**2 marks**)

**1000/2 = GBP500.00**

1. Define Transaction Exposure in foreign exchange risk and identify six examples of the exposure. *(9 marks)*

**(Total 15 marks)**

**QUESTION 2**

Mkulumadzi Bank has the previously breached Large Exposure directive by lending too much to few customers. Below is some of the list of its borrowers:

|  |  |  |  |
| --- | --- | --- | --- |
| **BORROWER** | **JAN 17** | **FEB 17** | **MARCH 17** |
| Nsipe Trading | 2bn | 2bn | 2bn |
| Mphate Enterprise | 700m | 700m | 700m |
| Kamphata Ltd | 2bn | 2bn | 2bn |
| Chileka Holdings | 3.5bn | 3.5bn | 3.5bn |
| Mpatamanga Co. | 900m | 900m | 900m |
| Malaka Gen. Dealers | 880m | 880m | 880m |
| Nayuchi Electronics | 500m | 500m | 500m |
| Ngumbe Fast foods | 750m | 750m | 750m |
| Sapitwa Hotel | 950m | 950m | 950m |
| Chambo freshfoods | 650m | 650m | 650m |
| Sharp valley agrofoods | 1bn | 1bn | 1bn |
| Neno Cattle farming | 800m | 800m | 800m |
| **Total Lending Book** | **15bn** | **20bn** | **25bn** |

**Required**

1. Calculate Credit concentration in percentage based on Top five borrowers for Jan, Feb, and March. *(6 marks)*
2. Define Credit Risk and identify **five** components of effective credit risk management. *(6 marks)*
3. Explain the role of factoring company in a business that has a large amount of debtors book. (*3 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Define Operational Risk and identify **seven** classes of Operational Risk. *(8 marks)*
2. Explain how a Basic Indicator Approach for calculating Operational Risk capital charge is used. *(3 marks)*
3. Explain how a Standardised Approach works, and how it is superior to the Basic Indicator Approach. *(4 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Illustrate how a letter of credit works from the time the applicant applies to the Issuing bank to the time the documents are received by the Issuing bank.

*(10 marks)*

1. Briefly explain the difference between a commercial Letter of Credit and a standby Letter of Credit. (*5 marks)*

**(Total 15 marks**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

Explain **ten** differences between Futures contracts and Forward Contracts.

**(Total 20 marks)**

**QUESTION 6**

With examples, write short notes on each of the following generic risks faced by banking industry

1. Systemic risk. *(4 marks)*
2. Credit risk. *(4 marks)*
3. Counterparty risk. *(4 marks)*
4. Liquidity risk. *(4 marks)*
5. Operational risk. *(4 marks)*

**(Total 20 marks)**

**QUESTION 7**

There are **seven** basic principles of risk management that apply to most financial institutions.

**Required**

Explain the following five principles:

1. Board & Senior management oversight. *(4 marks)*
2. Risk Management framework. *(4 marks)*
3. Integration of Risk Management. *(4 marks)*
4. Business line accountability & the three lines of defence. *(4 marks)*
5. Contingency planning. *(4 marks)*

(**Total 20 marks)**

**QUESTION 8**

Reserve Bank of Malawi issued directives and regulations to banks for different reasons.

**Required**

1. Identify **four** objectives of Large Exposure Directive. (*8 marks)*
2. Identify **two** objectives of Asset Classification Directive. *(4 marks)*
3. Identify **four** objectives of Minimum Capital Ratios Directive. *(8 marks)*

(**Total 20 marks**)

**END OF EXAMINATION PAPER**