

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

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

**Date: Monday 5th May 2014**

**Time Allocated: 3 hours (08:00-11:00am)**

**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 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

1. Define risk. (1 mark)

1. Briefly describe the basic principles of risk management? (14 marks)

**(Total 15 marks)**

**QUESTION 2**

Banks are said to be in the business of financial intermediation and maturity transformation. This involves generating funds or accepting deposits from customers and on-lending these funds to borrowers, often with mismatched maturity profiles. In the process, banks have to pay a cost, usually by way of interest for the funds received and they, in turn, charge their customers interest for use of funds. They, therefore, amass interest exposure on their asset and liability portfolios.

1. What is interest rate risk (IRR)? (2 marks)

1. Give **three** techniques or models for measuring and managing the asset-liability gap exposure of a bank. (3 marks)
2. Explain the **five** types of earnings risk that affect bank earnings. *(10 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. What is the LRR and why is it imposed on banks? (11 marks)
2. What is the current LLR in Malawi and what is its implication to a bank? Your answer must contain brief details on reasons for LRR and the implication must be illustrated using the current LRR. (4 marks)

**(Total 15 marks)**

**QUESTION 4**

1. Give an explanation of Corporate Governance and why is it important? (*4 marks)*
2. Describe the **three** major objectives of Corporate Governance? *(9 marks)*

1. State, as precisely as you can, the Corporate Governance Principle pertaining to compensation policies and practices. (2 marks)

**(Total 15 marks)**

**SECTION B (40 Marks)**

Answer **ANY** Two questions from this section.

**QUESTION 5**

Explain the main features of the recommended Basic Indicator Approach and the Standardised Approach issued by the Bank of International Settlements (BIS) on operational risk measurement methodologies under Basel II. Your answer must include a definition of operational risk and brief descriptions and issues relating to the two methodologies. Extra marks will be awarded for including formulae. (**Total 20 marks)**

**QUESTION 6**

Apart from credit risk, explain **five** other generic risks that banks face in providing banking services.  **(Total 20 marks)**

**QUESTION 7**

Banks traditionally deal in foreign currencies and may incur losses when holding or trading in these other currencies.

* 1. Define foreign exchange risk. *(2 marks)*
  2. Give the **three** main types of foreign exchange exposure, and briefly describe each*. (9 marks)*
  3. Name and explain **three** types of hedging techniques. *(9 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. Define credit risk. (3 marks)
2. Enumerate the traditional 5 C’s method of evaluating credit applicants.

(5 marks)

1. In providing credit, a bank must ensure that it has sufficient liquidity which is often derived from customer deposits and other sources at a cost. Why is it important for a bank to measure its cost of funds? (8 marks)
2. Name the **four** main sources of funds. (4 marks)

**(Total 20 marks)**

**END OF EXAMINATION PAPER**