

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

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

**Date: Monday, 14th 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 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**

The world at large generally maintains a misconception about risk that is not generally shared by savvy business professionals and entrepreneurs.

* 1. What **two** factors influence risk preferences. *(2 marks)*
  2. Briefly describe the **three** risk preference categories under which you would classify individuals.*(3 marks)*
  3. Give your opinion on the two statements below with practical examples from the business world.

1. Risk must be eradicated completely at all costs. *(5 marks)*
2. People who take risks are unsafe characters *(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Comment on the **four** benefits/advantages that can be advanced in favour of the adoption of a Credit Scoring Model against the traditional credit assessment/granting methodology. *(8 marks)*
2. What are the **three** most common borrower-related factors that give rise to the sustenance of losses to banks for credit(s) granted? *(7 marks)*

**(Total 15 marks)**

**QUESTION 3**

Banks, like any other business, face a multitude of risks and have to ensure that their revenues are greater than their costs in order to generate returns. Two of the major issues that banks’ have to deal with, in this regard, are the concept of liquidity management and cost of funds.

**Required**

1. Explain the relationship between liquidity management and “Cost of Funds”.

*(3 marks)*

1. Give and explain **four** reasons for a bank to measure its cost of funds. *(8 marks)*
2. Give **four** sources of funds for a bank. *(4 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. A Malawian coffee exporter enters into a contract for the delivery of US$65,000 of coffee tonnage to a customer in US for settlement in six months. The spot rate for the MWK/US$ is MK750 to the dollar.

**Required**

1. Define the forward contract hedge that the coffee exporter would enter into, to ensure her revenue is MK50.7million, outlining the position the exporter has. *(3 marks)*
2. If the exporter wished to use a Money Market Hedge by borrowing US$60,000, what is the annual compounded interest rate that would achieve this? *(4 marks)*
3. Calculate Forward Spot Rate using the following parameters
4. Spot rate: MWK/US$ = 700
5. Dollar interest rate = 2.0 percent
6. MWK interest rate = 25.0 percent
7. Number of days = 180 days *(8 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

One of the most important aspects in risk management philosophy (the independent review) is to make sure that those who take or accept risks on behalf of the institution are not the ones who measure, monitor and evaluate the risks.”

**Required**

1. Justify the significance of this philosophy. *(4 marks)*
2. Provide a sound counter argument that can be advanced to set aside this philosophy. (*8 marks)*
3. Upon which managerial considerations (e.g. structure, hierarchy, etc.) would this philosophy function effectively? (*8 marks)*

**(Total 20 marks)**

**QUESTION 6**

1. What are the **three** most critical factors that have to be taken into account when managing bank liquidity? *(3 marks)*
2. Provide brief comments on the **six** functions that are performed by bank liquidity. *(12 marks)*
3. What are the major causes of illiquidity in a bank? *(5 marks)*

**(Total 20 marks)**

**QUESTION 7**

Following recent cases in the media relating to alleged wrong-doing of company Directors, the Board wants to ensure that all of their officers are aware of how their corporate responsibilities relate to reputation. As the Bank risk professional, you have been asked to prepare a presentation to the Board as they are concerned about damage to the company’s reputation.

**Required**

Explain the relevance of Corporate Governance in risk management. Your answer must demonstrate an understanding of corporate governance, the major objectives and the pillars that underpin this important aspect of business. **(Total 20 marks)**

**QUESTION 8**

Asset and Liability Management (ALM) considers Interest Rate Risk (IRR) as a major risk exposure that needs to be carefully understood and mitigated. This risk has always been central to the management of banking institutions.

**Required**

1. Define IRR. *(2 marks)*
2. Give **three** types of earnings risks that impact on bank earnings. *(3 marks)*
3. Discuss the **three** techniques or models for measuring and managing the asset-liability gap exposure of a bank. (*15 marks)*

**NOTE:** Your answer must show a full appreciation of the different techniques/ models, including a brief explanation of the weaknesses of using the repricing gap. **(Total 20 marks)**

**END OF EXAMINATION PAPER**