UNIVERSITY OF JOHANNESBURG

Department of Finance and Investments

BANKING 3

BNK 33B3

SUPPLEMENTARY ASSESSMENT OPPORTUNITY

JANUARY 2018

Time: 180 Minutes **Marks: 100**

Assessor: Mr John Mabejane

External Moderator: Mr Andrew Pampallis

INSTRUCTIONS:

This paper consists of 3 pages (including the cover page).

- Answer all questions.
- Start each question on a new page.

Question	Topic	Marks	Time
1	Introduction to Risk Management	18	15 Minutes
2	Liquidity and currency risk	12	15 Minutes
3	Binomial and Poisson distribution	20	40 minutes
4	Credit Risk Management	20	50 minutes
5	Risk Management Process	30	60 Minutes
		100	**180**

Section 1 — 18 Marks

Answer True or False

1.1 Pure risk is a risk that is not diluted by political events.

False

1.2 Speculative risk is a risk that comes from spectacular events surrounding physical operations of a business.

False

1.3 Systematic risk a risk that one entity in the system may collapse leading to a collapse of the entire system.

False

1.4 Particular risk is a risk that emanates from the internal environment of a business and can be diversified.

True

1.5 Systemic risk is a risk that attacks the internal technological systems of a business.

False

1.6 A peril is an environment surrounding a source of risk.

False

1.7 A hazard is a source of risk.

False

1.8 Market risk is a risk that a business will not be able to market its products.

False

1.9 Risk control involves getting insurance for a risk that an institution is exposed to.

False

Section 2 — 12 Marks

Outline and discuss the following:

2.1 The three types of liquidity risk — 6 Marks

Funding Risk: Due to withdrawal/non-renewal of deposits

Time Risk: Non-receipt of inflows on account of assets(loan installments)

Call Risk: contingent liabilities & new demand for loans

2.2 The three types of currency risk 6 Marks

Translation Risk

Economic risk

Transaction exposure

Section 3 20 Marks

A bank has 8 ATMs in a city. The probability that an ATM will run out of funds on any given weekend is 50%.

Using both Poisson and Binomial Distribution calculate the probability that: (2 marks each)

3.1 All the ATMs will run out of funds

Binomial =0.003906, Poisson= 0.029769

3.2 None of the ATMs will run out of funds

Binomial 0.003906, Poisson = 0.018315

3.3 Five ATMs will run out of funds

Binomial= 0.21875, Poisson = 0.156289

3.4 Three of the 8 ATMs will run out of funds

Binomial = 0.21875, Poisson = 0.195362

3.5 Seven of the 8 ATMs will run out of funds

Binomial= 0.03125, Poisson = 0.059539

Section 4 50 Marks

Essay questions – strictly follow an essay structure

4.1 Discuss the Basle principles of credit risk management 20 Marks

Discuss the principles of Basle Accord under the themes

- **Establishing an appropriate credit risk environment**

Principle 1 to 3

- Operating under a sound credit granting process

Principle 4-7

- Maintaining an appropriate credit administration, measurement and Monitoring process

Principle 8-13

- **Ensuring adequate controls over credit risk**

  Principle 14- 16

- **The role of supervisors**

  Principle 17

Section 5 30 Marks

5.1 Write an essay about the process of risk management 30 Marks

To be discussed what is risk , risk identification process, risk evaluation methods (probabilities), risk financing, risk control