UNIVERSITY OF JOHANNESBURG

COLLEGE OF BUSINESSES AND ECONOMICS

JOHANNESBURG BUSINESS SCHOOL

DEPARTMENT OF BUSINESS MANAGEMENT

FINAL SUMMATIVE ASSESSMENT

SUBJECT:	Financial Risk Management
CODE:	HC1FINR
DATE:	18 November 2019
TIME ALLOWED:	120 Minutes
TOTAL MARKS:	100

ASSESSORS:	Mr A Pampallis
MODERATOR:	Mr D Smith
NUMBER OF PAGES:	4

INSTRUCTIONS:

1. This is a closed-book assessment.
2. Question papers must be handed in together with your answer books.
3. Read the questions carefully and answer only what is asked.
4. Answer all the questions:
5. Number your answers clearly.
6. Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
7. Structure your answers by using appropriate headings and subheadings.
8. The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

TRUE OR FALSE QUESTIONS **(20)**

Answer True (T) or False (F)

Answer on the first Page of your answer book

1.1. Financial risks arise naturally from the type of activities and operations of a business.

2. Credit risk may be defined as the risk of the debtor failing to meet the financial commitments stemming from a credit agreement, which includes servicing the interest and to repay the capital of a loan when it falls due.

3. In the assessment of credit risk, it is necessary to differentiate between the three main categories of (i) personal risk, (ii) business risk, and (iii) foreign risk.

4. It is important for banks to price their loans correctly, however they need not taking a wide variety of factors into account.

5. Interest rate risk is present when a financial institution's assets, taken as a whole, are not re-priced to an equal extent and/or at the same time as its liabilities.

6. Consider a bank whose customers default on their loans and repayment obligations this is called capital risk.

7. The issue of bank capital adequacy has long pitted regulators against bank management.

8. Foreign exchange only deals with currencies.

9. There are hedging techniques available to manage the credit risk.

10. In an economic sense capital can also be defined as the basic source of funds that can be expected to be utilised first in the event of asset shrinkage.

PTO

SHORT QUESTIONS **(30)**

Question 1

List the 5 financial risks. (5)

Question 2

Give 4 reasons as to why an individual borrower may need bank credit. (5)

Question 3

Give 5 risk assessments in the corporate sector. (5)

Question 4

The role capital should have two principle characteristics what are they. (5)

Question 5

List the different foreign exchange products used in the foreign exchange market to be able to reduce foreign exchange risk. (5)

Question 6

List five of the various risks affecting or that can affect the borrower's ability to meet his obligations.

PTO

LONG QUESTIONS **(50)**

Question 1 **(25)**

Financial institutions generate a great deal of their income by lending out money to individuals and businesses, both locally and internationally. In an attempt to reduce the associated risk, the institutions must assess the risk of non-payment through a process of credit analysis. For Individuals only answer the following:

a) Define Credit Risk and how this can be broken down. (4)
b) The purpose of credit analysis. (4)
c) List two ways in which a banker can err when assessing credit applications. (2)
d) Discuss the assessment criteria that would be applied or used to evaluate if an individual would be able to be granted a loan or credit. (15)

Question 2 **(25)**

Briefly discuss the importance of capital risk and what roles it should fulfil. (15)

Using the positive and negative interest yield curves, when would you advise your clients to lend or borrow in order to reduce the interest rate risk. (10)