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:** | 3rd November 2020 |
| **TIME ALLOWED:** | 120 Minutes |
| **TOTAL MARKS:** | 100 |

---

| | |
|---|---|
| **ASSESSORS:** | Mr A Pampallis |
| **MODERATOR:** | Mr D Smith |
| **NUMBER OF PAGES:** | 5 |

---

**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.
9. **Multiple choice to be answered in the multiple choice section at the back of the script.**
10. **True and false questions to be answered in the multiple choice section where (a) is true and (b) is false.**

**Multiple Choice Questions (see instructions)** **(20)**

1. When looking at interest rate risk, generally the setting of specific risk limits should take the following into account. Which is incorrect.

a. Potential interest rate volatility
b. The time to close out exposed positions
c. Government policy
d. Management's predilection for risk taking
e. Expected movements in interest rates and the degree of confidence attached to these expectation

2. Capital risk is dependent on.....

a. Assets
b. Liabilities
c. Shareholders' funds
d. The difference between assets and liabilities
e. All of the above

3. Which is correct? In capital risk management it is important....

a. To protect the depositors
b. To protect the owners
c. To maintain confidence in the safety and stability of a bank
d. All of the above

4. Which is incorrect? The credit risk management process consists of ...

a. Collecting information
b. Evaluating
c. Financial statement analysis
d. Projecting borrowers cash flow
e. Granting of the loan

5. Which is incorrect? The credit worthiness of individuals are asses using......

a. Character
b. Capital
c. Convenience
d. Conditions
e. Collateral

6. Which is incorrect? Banks should guard against in credit risk...

a. Competition
b. Communication
c. Carelessness
d. Criticism
e. Complacency

7. Which is not one of the main types of foreign exchange exposures

a. Transaction
b. Translation
c. Political
d. Economic

8. Which is not part of corporate risk assessments for large companies?

a. Sectorial research
b. Financial ratios
c. The competition
d. Cash flow projections
e. Management

9. Management of Liquidity risk is by looking at the following liquidity needs.

a. By holding sufficient cash
b. By holding near cash earning assets
c. By matching or mismatching the maturity and mix of assets with the maturity and mix of deposits
d. By holding long term assets
e. All of the above

10. Risks in exchange trading operations are as a result of:

a. Market/price risk
b. Credit risk
c. Liquidity risk
d. Poor trading controls
e. All of the above

**Answer True (a) or False (b) (see instructions) (15)**

11. Financial risks arise naturally from the type of activities and operations of a business.
12. 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.
13. 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.
14. It is important for banks to price their loans correctly, however they need not taking a wide variety of factors into account.
15. 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.
16. Consider a bank whose customers default on their loans and repayment obligations this is called capital risk.
17. The issue of bank capital adequacy has long pitted regulators against bank management.
18. Foreign exchange only deals with currencies.
19. There are hedging techniques available to manage the credit risk.
20. 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.
21. Currency risk and Exchange rate risk is the same thing.
22. It is not important to take the Gap analysis into account when dealing with interest rate risk.
23. The 5 C's can be used to evaluate large corporations.
24. Customers are not important when looking at Financial Risk.
25. The political environment is very important when looking at Financial Risk.

**Short Questions** **(40)**

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.

Question 7

List 5 reasons why capital risk is important. (5)

Question 8

Using the positive and negative interest yield curves, describe when would you advise your clients to lend or borrow in order to reduce the interest rate risk. (5)

**Long Questions** **(25)**

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)