UNIVERSITY OF JOHANNESBURG

COLLEGE OF BUSINESSES AND ECONOMICS
JOHANNESBURG BUSINESS SCHOOL
DEPARTMENT OF BUSINESS MANAGEMENT

SUPPLEMENTARY ASSESSMENT

SUBJECT:	Financial Risk Management
CODE:	HC1FINR
DATE:	21st January 2021
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. In capital risk management the following needs to be considered;

   1. Capital allocation
   2. Securitisation
   3. Manipulation of assets
   4. Manipulation of liabilities

a. 1 and 2
b. 1 and 3
c. 1 and 4
d. 2 and 4
e. 3 and 4

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. When interest rates are increasing in relation to maturity the following should take place;

   1. Lend in the beginning as interest rates rise
   2. Borrow in the beginning as interest rates rise
   3. Lend later as interest rates rise
   4. Borrow later as interest rates rise

a. 1 and 4
b. 1 and 2
c. 2 and 3
d. 3 and 4
e. None of the above

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) [10]

11. Financial risks don't 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, i.e. he will not be paying his interest on the loan when it falls due.
13. In the assessment of credit risk, it is only necessary to differentiate between the following risks of (i) personal risk, (ii) business 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.

SHORT QUESTIONS [30]

Question 1 (20)

<u>Briefly explain what is meant by the following</u>:

a) Capital Risk why is it so important? (5)
b) Translation exposure (5)
c) The role capital should have two principle characteristics what are they. (5)
d) List five of the various risks affecting or that can affect the borrower's ability to meet his obligations. (5)

Question 2
List the 5 financial risks. (5)

Question 3
List the different foreign exchange products used in the foreign exchange market. (5)

LONG QUESTIONS [40]

Question 1 **(15)**

Explain each of the following risks and the relationship between them and how they affect each other.

Interest rate risk,
Credit risk and
Liquidity risk

Question 2 **(25)**

Briefly discuss each of the following criteria that are used to evaluate credit risk for Corporates.

a. Sectorial research
b. Liquidity ratios
c. Profitability ratios
d. Funding ratios
e. Management