UNIVERSITY OF ESWATINI

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

SUPPLEMENTARY EXAMINATION PAPER NOVEMBER 2019/2020 SESSION

PROGRAMME	:	**BACHELOR OF COMMERCE**
TITLE OF PAPER	:	**RISK MANAGEMENT**
COURSE CODE	:	**ACF 419**
TOTAL MARKS	:	**100 MARKS**
EXAM PERIOD	:	**NOVEMBER, 2019**
TIME ALLOWED	:	**THREE (3) HOURS**

INSTRUCTIONS:

1. There are four (4) questions, ANSWER ALL.
2. Begin the answer to each question on a new page.
3. Show all necessary calculations.
4. The marks awarded for a question are indicated at the beginning of each question.
5. All questions carry equal marks.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

THIS PAPER MUST NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

SPECIAL REQUIREMENT: FINANCIAL CALCULATOR

Question 1 (25 marks)

(i) An organisation must identify the sources of its operational risk exposures to be able to manage them. Explain the sources of operational risk exposures. **(9 marks)**

(ii) Japan Motor Ltd has identified 1 people, 1 technology, 1 external dependency, and 1 process risks exposures with a 35%, 25%, 30%, and 10% probability of occurrence respectively. The impact of the risk exposures are \$20,000, \$25,000, \$3,000, and \$22,000 respectively should they occur. The technology and external dependency risks are positive risks, whereas the people and process risks are negative risks. Calculate the expected monetary value required to manage all the identified risk exposures. **(12 marks)**

(iii) Discuss why the total impact may be greater than the EMV. **(4 marks)**

Question 2 (25 marks)

Interest rate options are used to hedge against different reference interest rates or prices of underlying assets. Discuss interest rate cap and floor options as hedging strategy against interest rate risk exposures. **(12 marks)**

(ii) Nestle Foods PLC borrows by rolling over short-term debt every quarter. Concerned about rising rates, the company buys an interest rate cap to cover its \$30 million floating rate debt. The cap strike rate is 5.00 percent, the reset period is quarterly, and the reference rate is the London Interbank Offered Rate (LIBOR). At the first rollover and cap date, the LIBOR is 4.15 percent, and at the second rollover and cap date, the LIBOR increased to 5.75 percent. Calculate the settlement amounts for the two rollover and cap dates, and advise Nestle Foods PLC. **(13 marks)**

Question 3 (25 marks)

(i)What do you understand by credit risk? Outline any seven credit events (or credit risk triggers) known to you. **(13 marks)**
(ii) Discuss the CAMPARI model as one of the judgemental templates for assessing credit risk. **(12 marks)**

Question 4 (25 marks)

(i) Write short notes on any three of the following risk exposure measurement techniques:

I. Scenario analysis
II. Standard deviation
III. Regression analysis
IV. Value at risk (VaR). **(15 marks)**

(ii) Define risk management and highlight the factors that can result in risk management failure. **(10 marks)**

END OF PAPER