

UNIVERSITY OF ESWATINI
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING AND FINANCE
SUPPLEMENTARY EXAMINATION PAPER 2020/2021 SESSION

PROGRAMME : BACHELOR OF COMMERCE
TITLE OF PAPER : RISK MANAGEMENT
COURSE CODE : ACF 419
TOTAL MARKS : 100 MARKS
EXAM PERIOD : MARCH, 2021
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.

Question 1 (25 marks)

- (i) Credit risk is the potential that a contractual party will fail to meet its obligations in accordance with the agreed terms. Highlight the three characteristics that define credit risk and discuss any 5 of the 6Cs of credit as a qualitative models for measuring credit risk. **(15 marks)**
- (ii) Explain any five methods for managing credit risk. **(10 marks)**

Question 2 (25 marks)

- (i) Mbabane Pty needs to borrow E20,000,000 in three months' time. The Management is concerned that interest rates may rise, so the company buys a 3 x 6 forward rate agreement (FRA) at 5.00 percent. At beginning of FRA, the reference rate (RR) has risen to 6%. Calculate the settlement amount. **(7.5 marks)**
- (ii) Discount the settlement amount to its present value. **(7.5 marks)**
- (iii) What are the differences between forward rate agreement and interest rate futures? **(10 marks)**

Question 3 (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)**

Question 4 (25 marks)

- (i) The output of enterprise risk management (ERM) activities is that risks will be better identified and managed, so that the capital required to meet the consequences of the risks materializing is lowered. Discuss any five activities involved in implementing ERM in practice. **(10 marks)**
- (ii) Discuss the types of traders in derivative market, and the uses of derivatives instruments. **(15 marks)**

END OF PAPER