



RSK2602

May/June 2014

FUNDAMENTALS OF OPERATIONAL & FINANCIAL RISK

Duration 2 Hours

70 Marks

EXAMINERS
FIRST
SECOND

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Use of a non-programmable pocket calculator is permissible.

Closed book examination.

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

This examination paper consists of **15 pages** including this page and 2 pages for rough work.

This paper comprises **TWO SECTIONS**.

Section A consists of ten **Multiple-Choice** questions of 1 mark each. **The answers to these questions must be indicated in the table at the end of the section.**

Section B consists of **Essay Type** questions. Each question must be answered in the designated area below the question.

SECTION A: MULTIPLE-CHOICE QUESTIONS**[Total 10 Marks]**

Indicate the **CORRECT** answer to each question in the table at the end of the section

Question 1

Risk factors that are related to operational risk are . . .

- a internal fraud
- b movement in prices of commodities
- c inability to make loan payments
- d key person dependency

Choose the correct combination:

- 1 a, b
- 2 b, c
- 3 c, d
- 4 d, a

Question 2

Corporate governance is defined as ..

- 1 a prescribed set of rules to define the relationships between an organisation's management, its board, its shareholders and stakeholders
- 2 the concern of holding a balance between economic and social goals and between individual and communal goals
- 3 the practice by which organisations are managed and controlled
- 4 the alignment of the interests of individuals, corporations and the community

Question 3

The cost of risk comprises . . .

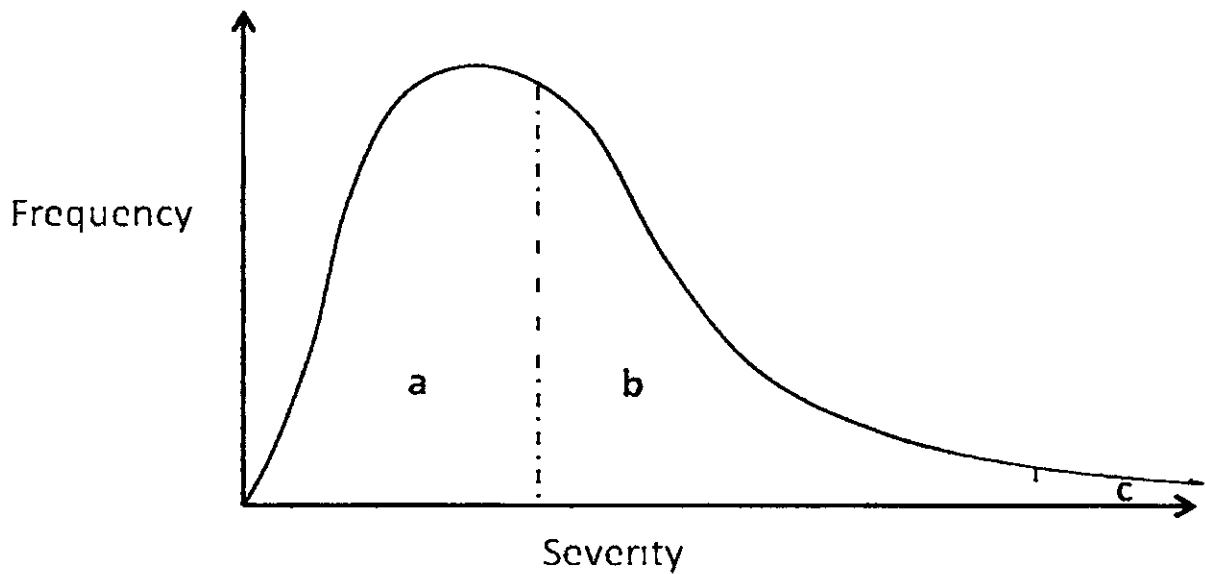
- a management time involved in risk identification and evaluation
- b opportunity cost by choosing between investment alternatives
- c risk training and seminars attended by risk and other staff
- d uninsurable losses

Choose the **most** correct option

- 1 a, b, c
- 2 b, c, d
- 3 d, a, b
- 4 a, c, d

[TURN OVER]

The next 2 questions (questions 4 and 5) are based on the diagram below.



Question 4

The area in the diagram where the use of internal data for the modelling of operational risk is the most appropriate is best described by .

- 1 a
- 2 b
- 3 c
- 4 the whole area under the curve

Question 5

An example of the type of losses represented by "a" in the diagram are

- a flood damage in Gauteng
- b pilfering by staff in a retail outlet such as Spar
- c spillage in a manufacturing concern due to the incorrect calibration of the machinery
- d incorrect calculation of the annual tax assessment

Choose the **correct** combination.

- 1 a, b
- 2 b, c
- 3 c, d
- 4 a, d

The next five questions (questions 6 – 10) are based on the following information.

Below is an extract from the Loss Event Database of the most significant losses experienced over the last six months for CBA.

DATE	DESCRIPTION	AMOUNT
2013/12/24	ATM robbery- Robbers forced open an ATM at the Kiptown branch.	R 500,000
2013/12/27	A counterparty did not settle an interest rate swap reset due to a crash of one of the servers in CBA's computer centres.	R 125,000
2013/12/30	A staff member defrauded the bank with a fictitious loan	R 50,000
2014/01/05	The static data of a Greece Government Bond was captured incorrectly, which meant that the trader calculated and traded off the incorrect curve.	R 2,185,670
2014/01/18	Internal Audit highlighted that incorrect assumptions were used to evaluate Credit Default Swaps (CDS)	R 150,432
2014/02/23	Greece defaulted on the government bond	R 50,000,000
2014/03/05	An uninsured pool vehicle was written of in an accident	R 270,000
2014/03/15	Teller differences for February	R 350,000
2014/04/17	Un-reconciled items on suspense accounts written off	R 1,354,678
2014/04/25	Upgrading of the bank's teller system	R 1,500,000

Question 6

The loss caused by the incorrect capturing of the static data of the Greece Bond is an example of

- 1 country risk
- 2 counterparty risk
- 3 operational risk
- 4 market risk

Question 7

Teller differences can be classified as . . .

- 1 market risk
- 2 operational risk
- 3 credit risk
- 4 error risk

Question 8

The most probable cause of the loss experienced with the un-reconciled items is . . .

- 1 bad system design
- 2 bad process design
- 3 weak supervision
- 4 untrained people

Question 9

The total amount that can be classified as operational losses is . .

- 1 R4 985 348
- 2 R6 335 348
- 3 R54 985 348
- 4 R56 485 348

Question 10

The total of losses that can be classified as internal events in terms of the operational risk definition is .

- 1 R54 065 348
- 2 R5 715 348
- 3 R4 215 348
- 4 R4 065 348

Indicate your answers for Section A in this table.

1		6	
2		7	
3		8	
4		9	
5		10	

END OF SECTION A

[TURN OVER]

SECTION B: ESSAY QUESTIONS

[Total 60 Marks]

Answer **ALL** the questions

Question 1

[10 Marks]

Discuss five core principles of the operational risk management function of an organisation

[TURN OVER]

Question 2

[20 Marks]

Illustrate the operational risk management process by means of a diagram and discuss each of the components of the process.

A large rectangular box for drawing a diagram, followed by ten horizontal lines for writing.

[TURN OVER]

Question 4

[10 Marks]

Define risk monitoring and discuss the items a risk monitoring programme would entail.

DO YOUR ROUGH WORK HERE – NO ROUGH WORK WILL BE MARKED.

DO YOUR ROUGH WORK HERE – NO ROUGH WORK WILL BE MARKED.

