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**RSK2602**

**MAY/JUNE 2015**

**FUNDAMENTALS OF OPERATIONAL AND FINANCIAL RISK**

STUDENT NUMBER									

IDENTITY NUMBER											

**FOR USE BY EXAMINATION INVIGILATOR**

Question No	Marks					
	Examiners					
	1	2	3			
<b>Section A</b>						
1						
2						
<b>Section B</b>						
3						
4						
5						
6						
7						
8						
<b>Total</b>						

Subject .....

Number of paper .....

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**RSK2602**

May/June 2015

**FUNDAMENTALS OF OPERATIONAL & FINANCIAL RISK**

Duration 2 Hours

70 Marks

**EXAMINERS**

FIRST

MS CJ DE SWARDT

SECOND

MR J VAN HUYSTEEN

Use of a non-programmable pocket calculator is permissible.

Closed book examination.

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This paper consists of 13 pages in total, including 2 pages for rough work

This paper comprises **TWO** sections, A and B

Section A comprises multiple choice and true/false questions. You must answer the questions in this section on the examination paper as instructed. Section B comprises paragraph and essay type questions which must be answered in the designated areas on the paper

**Please note:**

- 1 This is a fill-in examination paper and there is no need for any examination scripts. Students must hand over the examination paper to the invigilator before leaving the examination hall.
- 2 **NO MARK READING SHEET IS PROVIDED** for the multiple choice questions. The answers must be indicated on the exam paper as instructed.
- 3 Any silent, non-programmable, battery operated pocket calculator may be used.
- 4 Pages for rough work have been provided (see pages 12 and 13). No rough work will be marked.

**SECTION A: MULTIPLE-CHOICE AND TRUE/FALSE QUESTIONS**

Indicate the correct answer to each question by drawing a circle around the number of the correct option.

**Question 1**

1 1 Derivative risk arises from

- 1 the failure of customers to pay back loans
- 2 the decrease in the value of financial portfolios due to market movements
- 3 hedging activities
- 4 fluctuations in exchange rates

1 2 Non-financial risk include amongst others

- a Speculative risks
- b Strategic risks
- c Reputational risk
- d Operational risk

**Choose the correct combination:**

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

1 3 Identified risk can be managed through

- a reduction
- b financing
- c avoidance
- d transfer
- e retention
- f acceptance

**Choose the correct combination:**

- 1 all of the above
- 2 a,b,c,d,e
- 3 a,c,d,f
- 4 c,d,e,f

1 4 The bottom-up approach to the establishment of an operational risk management function involves

- 1 formulating a definition for operational risk
- 2 defining the operational risk categories
- 3 developing a risk culture
- 4 identifying risk exposures

**[TURN OVER]**

1 5 System downtime is a(n) \_\_\_\_\_ of risk and requires \_\_\_\_\_ management

- 1 upside proactive
- 2 upside reactive
- 3 downside proactive
- 4 downside reactive

1 6 Indicate the **correct** statement

- 1 The likelihood of risk exposures can be rated as probably, possible and remote
- 2 The impact of risk exposures can be rated as probably, possible and remote
- 3 The qualitative approach to risk evaluation aims to quantify risk in numerical terms
- 4 Database modelling is a qualitative risk evaluation tool

1 7 Indicate the **correct** equation

- 1 Residual risk = inherent risk - controls
- 2 Inherent risk = residual risk - controls
- 3 Residual risk – inherent risk + controls
- 4 Inherent risk = residual risk

1 8 When the repo rate is increased by the government

- 1 the money supply in the country is increased
- 2 consumers will have more money to spend on durables and investments
- 3 it normally have a dampened effect on the economy
- 4 the economy of the country will normally receive a boost

1 9 Credit risk comprises of

- a Default risk
- b Recovery risk
- c External risk
- d Exposure risk

**Choose the correct combination.**

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

1 10 Qualitative approaches to risk evaluation include

- a Database modelling
- b Risk process flow analysis
- c Stochastic modelling
- d Causal modelling

Choose the correct combination:

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

(10 X 1 = 10)

**Question 2**

Evaluate the accuracy of each of the following statements. Indicate whether you consider the statement accurate or not and provide a full motivation for your answer.

**NO MARK WILL BE AWARDED FOR A TRUE OR FALSE ANSWER WITHOUT A MOTIVATION.**

2 1 Operational risk is speculative in nature

True/False


2 2 Where a bank is unable to meet unexpected demands for cash it means that the bank is illiquid and insolvent

True/False


2 3 The three pillars of operational risk management and corporate governance in terms of the new Basel Accord are regulation, supervision and control

True/False


**[TURN OVER]**

2 4 Speculators in the financial markets normally have an indifferent attitude towards risk

True/False


2 5 In terms of good corporate governance, the risk committee should be responsible for determining the levels of risk tolerance for the organisation

True/False


2 6 Operational risk management drivers include internal, external and regulatory drivers

True/False


2 7 The investment in preventative controls can be considered as an upside of operational risk

True/False


2 8 A hybrid approach to risk measurement is the preferred approach and provides a more realistic reflection of reality

True/False


2 9 Insurance cost includes unreimbursed losses arising from excesses on insurance policies and inadequate sums insured

True/False


2 10 Retention funding is considered a pre-loss funding strategy

True/False


(10 x 2 = 20)

[TURN OVER]













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

[TURN OVER]

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