MAR 2024

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

FUNDAMENTALS OF RISK ANALYSIS AND MANAGEMENT (BS242)

DURATION: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer any **four** questions.
2. All questions carry equal marks.
3. Non programmable calculators can be brought into the examination

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QUESTION ONE

a) Describe the risk management process that can be implemented by a financial institution in Zimbabwe. (8)

b) Examine the need for collateral security by the financial institution when granting loans to potential clients. (8)

c) Outline the method used by banks to screen out potential loans clients (9)

[25MARKS]

QUESTION TWO

a) Cite any bank which has failed in the past and explain the major reasons which led to the failure of that bank (15)

b) Examine the measures which has been put by Reserve bank (RBZ) to safe guards the further collapse of other banks in the Zimbabwe banking sectors (10)

[25 MARKS]

QUESTION THREE

a) You are creating a portfolio of Stock D and Stock BW. You are investing $2,000 in Stock BW and $3,000 in Stock D. Remember that the expected return and standard deviation of Stock BW is 9% and 13.15% respectively. The expected return and standard deviation of Stock D is 8% and 10.65% respectively. The correlation coefficient between BW and D is 0.75

Calculate and comment

i. Expected return of the portfolio (5)

ii. Standard deviation of the portfolio (10)

b) Explain the following terms as they are used in risk management

i. Risk transfer. (5)

ii. Risk hedging. (5)

[25 MARKS]

QUESTION FOUR

a) Cite any bank of your choice ,examine the measures which has been put by the bank to encouraged adoption of e-banking services by its clients (15)

b) Saving culture and confidence in the financial sector has been cited as a major challenge to bank liquidity management ,discuss (10)

[25MARKS]

QUESTION FIVE

An American trader purchases 2 million worth of British Pounds (£) spot from Bank A. The current spot rate is $1.75/£, for settlement in four business days. The transaction implies that, at the current rate, the bank will deliver $2.5 million in four business days in exchange for receiving £2 million.

Required

Identify and illustrate four series of risks that are inherent in this transaction and ways to manage such risks **[25 MARKS]**

QUESTION SIX

a) Distinguish between:

i. Call Option and a Put Option (5)

ii. Spot transaction and forward transaction (5)

iii. Cyber security and Cyber-crime (5)

b) Outline the sources of market risk that can be faced by a financial institution (10)

[25 MARKS]

END OF EXAMINATION