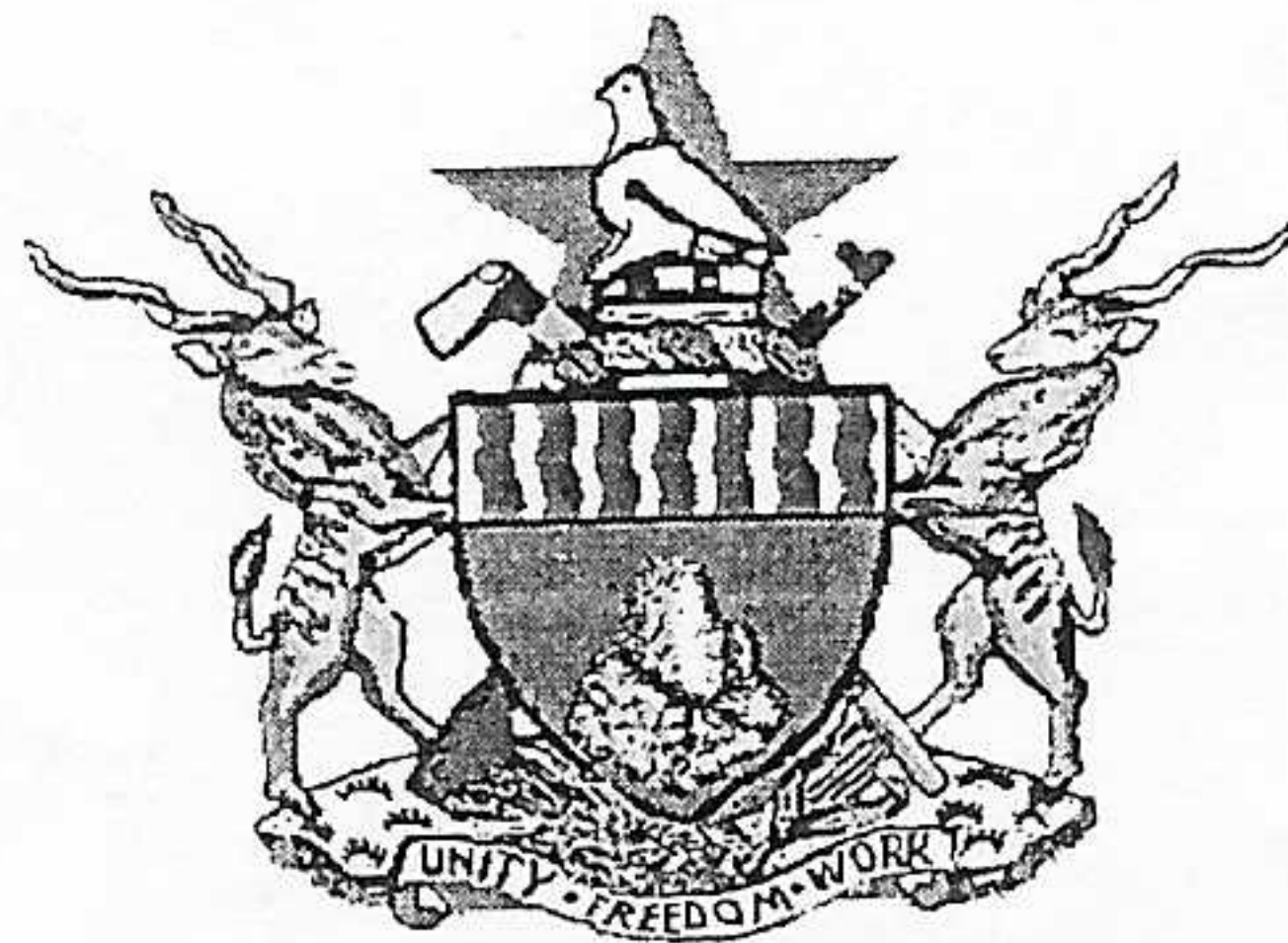




ZIMBABWE

**MINISTRY OF HIGHER AND TERTIARY EDUCATION,
SCIENCE AND TECHNOLOGY DEVELOPMENT**

**HIGHER EDUCATION EXAMINATIONS COUNCIL
(HEXCO)**

HIGHER NATIONAL DIPLOMA

IN

BANKING AND FINANCE

SUBJECT: Risk and Compliance Management PAPER NO: 737/16/S01

DURATION: 3 Hours

OCTOBER/NOVEMBER 2024 EXAMINATION

REQUIREMENTS

Non-programmable calculator

INSTRUCTIONS TO CANDIDATE

- 1. Answer any FIVE (5) questions.**
- 2. Each question carries equal marks.**

PAPER NO: 737/16/S01 – RISK MANAGEMENT

QUESTION 1

Explain the different ways in which derivative instruments can be used to hedge risk. (20 marks)

QUESTION 2

Explain the following:

- a) Credit screening (4 marks)
- b) Internal rating (4 marks)
- c) External rating (4 marks)
- d) Risk quality (4 marks)
- e) Risk limits (4 marks)

QUESTION 3

- a) With the aid of examples, distinguish between scenario analysis, sensitivity testing and stress testing. (10 marks)
- b) Consider a 15 year, \$1 000 bond paying 15% coupon with a YTM of 15%. Calculate the bond value. (10 marks)

QUESTION 4

- a) Discuss the three (3) pillars of the Basel 1 accord. (14 marks)
- b) Outline three (3) benefits of effective risk management to a financial institution. (6 marks)

QUESTION 5

- a) Define funding and liquidity risk. (4 marks)
- b) Explain four (4) methods available to banks in funding their operations. (16 marks)

QUESTION 6

- a) Given the following information:

$$E(R_p) = 15\%$$

$$\text{Standard deviation } (\sigma_p) = 22\%$$

$$r_f = 7\%$$

- i) What is the optimal solution for an investor with a coefficient of risk aversion of $A = 4$? (6 marks)
 - ii) Determine the Expected Return and standard deviation of the complete portfolio. (6 marks)
 - iii) Calculate the Reward to Variability ratio. (4 marks)
- b) Explain risk based pricing. (4 marks)

.../ab