MCQ - RISK MANAGEMENT

1. A bank suffers loss due to adverse market movement of a security. The security was however held beyond the defeasance period. What is the type of the risk that the bank has suffered ?

   (i) Market Risk
   (ii) Operational Risk*
   (iii) Market Liquidation Risk
   (iv) Credit Risk

2. 8% Government of India security is quoted at RS 120/- The current yield on the security, will be----

   (i) 12%
   (ii) 9.6%
   (iii) 6.7%*
   (iv) 8%

3. A company declares RS 2/- dividend on the equity share of face value of RS 5/-. The share is quoted in the market at Rs 80/- the dividend yield will be----

   (i) 20%
   (ii) 4%
   (iii) 40%
   (iv) 2.5%

4. From following table find number of accounts that have suffered rating migration during 2006-07

<table>
<thead>
<tr>
<th>Last Rating</th>
<th>No. of Accounts</th>
<th>A++</th>
<th>A+</th>
<th>A</th>
<th>B+</th>
<th>B</th>
<th>C</th>
<th>Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100</td>
<td>1</td>
<td>1</td>
<td>79</td>
<td>10</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>
   (i) 2
   (ii) 19*
   (iii) 21
   (iv) 25

5. A debenture of face value of As. 100 carries a coupon of 15%. If the current yield is 12.5%. What is the current market price ?

   (i) Rs.100
   (ii) Rs.120*
   (iii) Rs.150
   (iv) Rs.125

6. An increase in cash reserve ratio will cause yield curve to

   (i) Shift downward *
   (ii) Remain unchanged
   (iii) Become steeper
   (iv) Become flatter

7. When interest rates go up, prices of fixed interest bonds –

   (i) Go up
8. VaR is not enough to assess market risk of a portfolio. Stress testing is desirable because

   (i) It helps in calibrating VaR module
   (ii) It helps as an additional risk measure
   (iii) It helps in assessing risk due to abnormal movement of market parameters*
   (iv) It is used as VaR measure is not accurate enough

9. Large Government borrowing can cause yield curve to shift upward.

   i. False
   ii. True *
   iii. Difficult to say
   iv. Remains same

10. A fall in interest rates reduces the demand for bonds in the secondary market

   i. False
   ii. True *
   iii. Difficult to say
   iv. Demand is unaffected

11. A transaction where financial securities are issued against the cash flow generated from a pool of assets is called

   (i) Securitization*
   (ii) Credit Default Swaps
   (iii) Credit Linked Notes
   (iv) Total Return Swaps

12. Operational Risk does not arise from

    1) Inadequate or failed internal processes
    2) People and systems
    3) External Events
    4) Defaults by own customers*

13. 12% Government of India security is quoted at Rs.120. If interest rates go down by 1%, the market price of the security will be.....

   (i) Rs. 120
   (ii) Rs.133.3 *
   (iii) Rs. 109
   (iv) Rs. 140

14. A bank expects fall in price of a security if it sells it in the market. What is the risk that the bank is facing?

   (i) Market risk
   (ii) Operational risk
   (iii) Asset Liquidation risk*
   (iv) Market liquidity risk
15. 1 day VaR of a portfolio is Rs.500,000 with 95% confidence level. In a period of six months (125 working days) how many times the loss on the portfolio may exceed Rs.500,000?

(i) 4 days
(ii) 5 days*
(iii) 6 days
(iv) 7 days

16. 11% Government of India security is quoted at Rs. 110, the yield will be –

(i) 11%
(ii) 10%*
(iii) 9%
(iv) None of these

17. Systemic risk is the risk due to

(i) Failure of a bank, which is not adhering to regulations
(ii) Failure of two banks simultaneously due to bankruptcy of one bank
(iii) Where a group of banks fail due to contagion effect
(iv) Failure of entire banking system*

18. Back testing is done to

(i) Test a model
(ii) Compare model results and actual performance*
(iii) Record performance
(iv) None of the above

19. Falling interest rates cause NAVs of debt mutual fund to go down.

   i. False*
   ii. True
   iii. Difficult to say
   iv. I do not know

20. Capital charge for credit risk requires input for PD, LGD, EAD and M. Under advanced IRB approach, who provide the input for LGD.

(i) Bank *
(ii) Supervisor
(iii) Function provided by BCBS
(iv) None of the above

21. A debenture of Rs.100 carrying 15% coupon rate is quoted in the market at Rs.135/-. The current yield on this debenture will be

(i) 13.5%
(ii) 15%
(iii) 11.11%*
(iv) 10%

22. Investment in Post Office time deposit is

(i) Zero risk investment*
(ii) Low risk investment
(iii) Medium risk investment
23. Premature payment of a term loan will result in interest rate risk of type

(i) Basis risk
(ii) Yield curve risk
(iii) Embedded option risk*
(iv) Mismatch risk

24. A company with equity capital of Rs.50 crores (Face Value of Rs.10/- per share) makes gross profit of Rs.70 crores and net profit after tax of Rs.25 crores. If the market price of its equity share is Rs.50, the PE ratio will be

(i) 50
(ii) 5
(iii) 10*
(iv) 20

25. Daily volatility of a stock is 1%. What is its 16 days volatility approximately?

(i) 3%
(ii) 10%
(iii) 1%
(iv) 4%*

26. Capital charge component of pricing accounts for

1) Cost of capital
2) Internal generation of capital
3) Capital that is required to be provided

Which of the following is true?

(i) All the statements are correct
(ii) Statements 1 and 2 are correct
(iii) Statements 2 and 3 are correct
(iv) Statement 3 is correct *

27. A bank funds its assets from a pool of composite liabilities. Apart from credit and operational risks, it faces

(i) Basis risk*
(ii) Mismatch risk
(iii) Market risk
(iv) Liquidity risk

28. A branch sanctions Rs.1 core loan to a borrower, which of the following risks the branch is taking

1) Liquidity risk
2) Interest rate risk
3) Market risk
4) Credit risk
5) Operational risk

(i) All of them
(ii) 1, 2 and 3 only
(iii) 1, 4 and 5 only
(iv) 1, 2, 4 and 5 only*
29. Financial Risk is defined as
   (i) Uncertainties resulting in adverse variation of profitability or outright losses*
   (ii) Uncertainties that result in outright losses
   (iii) Uncertainties in cash flow
   (iv) Variations in net cash flows

30. Strategic Risk is a type of
   (i) Interest Rate Risk
   (ii) Operation Risk
   (iii) Liquidity Risk
   (iv) None of the above*

31. A mutual fund charges 1% entry load and no exit load. Its NAV is Rs.16; its sale and repurchase price will ----
   (i) Rs.16 and Rs.15.80
   (ii) Rs.15.84 and Rs.16
   (iii) Rs.16.16 and Rs.16
   (iv) Rs.16.16 and Rs.16*

32. Asset Liability management is only management of maturity mismatch and has no bearing on profit augmentation.
   (i) True
   (ii) False*
   (iii) Difficult to say

33. A company with equity capital of Rs.15 crores makes PBIDT of Rs.15 crores and PAT of Rs.10 crores. The face value of its share is Rs.5 and PE is 10, the market price will be ----
   (i) Rs.50
   (ii) Rs.66
   (iii) Rs.33.34*
   (iv) Rs.100

Q. Placement of volatile portion and core portion of Saving and Current deposit may be done as under:
   a. volatile portion in day 1 time bucket and core portion in 1-3 year bucket.*
   b. Volatile portion in 7 day time bucket and core portion in 5 year bucket.
   c. Volatile portion in 2-7 days time bucket and core portion in 1 year time bucket.
   d. none of above.

Q. Cash should be shown under which time bucket for inflow:
   a. 1 day.*
   b. 2-7 days.
   c. 8-14 days.
   d. One year.

Q. Investment in shares and mutual fund (open ended) should be shown in
a. Over 5 year bucket
b. Over 1 year bucket.
c. Over 2 year Bucket.
d. None of above.

Q. Investment in subsidiaries and joint ventures to be shown
a. In over 5 year bucket.*
b. In over 3 year bucket.
c. In over 1 year bucket.
d. None of above.

Q. Core portion of Cash credit advances may be shown under
a. 1-3 year time bucket.*
b. over 3 year time bucket.
c. Over 5 years time bucket.
d. None of above.

Q. Term Loans to be shown under:
a. Interest and principal of the loan under residual maturity bucket.*
b. Principal under residual maturity bucket.
c. all in 5 year and above bucket.
d. None of above.

Q. The net cumulative negative mismatches during the day 1, 2-7, 8-14 and 15-28 days buckets if exceed the prudential limits may be financed from market by
a. Market borrowings (call/term)
b. Bills discounting
c. Repo
d. All above.*

Q. Market Value of an asset is conceptually equal to
a. Present value of current and future cash flows from that asset and liability.*
b. future value of current and future cash flows from that asset and liability.
c. None of above.
d. Present value of asset and future value of liability.

Q. Yield Curve Risk is known as:
a. Risk owing to altering of yields across maturities and its impact on NII*
b. Risk owing to wrong drawing of yield curve by Bank staff.
c. risk of lower current yield.
d. None of above.

Q. Gap method is basically used for
a. measuring banks interest rate risk exposure.*
b. measure maturity mismatch
c. Measure potential losses from off balance sheet exposure.
d. None of above.

Q. In a given time band a negative or liability sensitive gap occurs when
a. Rate sensitive liabilities exceed rate sensitive assets.*
b. Rate sensitive assets exceed rate sensitive liabilities.
c. None of above.
d. All the above.

Q. with a negative gap, an increase in market interest rates could cause a
a. decline in net interest income.*
b. Increase in net interest income.
c. None of above.
d. All above.

Q.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CASH FLOW</th>
<th>DISCOUNT RATE 8%</th>
<th>DISCOUNT RATE 10%</th>
<th>PRESENT VALUE at 8%</th>
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<td>0.9091</td>
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<td>140</td>
<td></td>
<td></td>
<td>100</td>
</tr>
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</table>

Suppose that current expectation of yield is 10%. What will be the market price?
Ans: Rs 92.4184

Q. Under Put option the buyer has  
a. Right to sell but not obligation to sell*  
b. Right to buy but not obligation to buy  
c. Right to receive interest payments.  
d. None of above.

Q. Under Call option the buyer has  
a. Right to buy but not obligation to buy  
b. right to sell but not obligation to buy  
c. None of above.  
d. right to either sell or buy

Q. In India only  
a. European option are allowed.*  
b. Only American option are allowed.  
c. Both are allowed.  
d. None are allowed.

Q. Futures are  
a. Over the counter products.  
b. Exchange traded.*  
c. None of above.  
d. all the above.

Q. Which of the following is true:  
a. A swap has invariably two legs of transaction.*  
b. A swap only one leg of transaction.  
c. None of above.  
d. All the above.

Q. Futures are marked to market on  
a. Daily basis and margin is adjusted.*  
b. Weekly basis.  
c. Monthly basis.  
d. None of above.

Q. Capital, Reserves and Surplus are  
a. Non interest rate sensitive.*
b. Interest Rate Sensitive.
c. None of above.

Q. Provisions and inter office adjustments are
a. Rate sensitive.
b. Rate non sensitive.*
c. None of above.
d. All of above.

Q. Current account balance is
a. Rate sensitive.
b. Rate non sensitive.*
c. None of above.
d. All of above.

d. All of above.

Q. Banking Book relates to assets which are
a. held till maturity and reflected in Balance sheet at acquisition cost.*
b. held till maturity and reflected in Banking book at market cost.
c. None of above.
d. All of above.

Q. Trading book includes:
  a. assets which normally not held till maturity and mark to market system is followed.*
  b. assets which are held till maturity.
  c. assets which are purchased in market.
  d. none of above.

Q. Which is true:
  a. Risk associated with portfolio is always less than the weighted average of risks of individual items in portfolio.*
  b. Risk associated with portfolio is always more than the weighted average of risks of individual items in portfolio.
  c. Risk associated with portfolio is equal to weighted average of risks of individual items in a portfolio.
  d. Risk of the portfolio cannot be related to the risks in individual items

Q. Systemic risk can be diversified
a. True.
b. False.*
c. Partly true
d. partly false.

d. partly false.

Q. Basel Committee (BCBS) possess formal super national supervisory authority and its conclusions have legal force:
a. True.
b. False*
c. through World bank
d. through the central bank of the country.

d. through the central bank of the country.

Q. Bond price changes can be estimated using modified duration using following relationship
  a. modified duration* yield change.
  b. Mcaulay duration* yield change. *
Q. VaR is
   a. potential worst case loss at a specific confidence level over a certain period of time.*
   b. potential worst case loss over indefinite period of time.
   c. none of above.
   d. potential for gain over a selected period