1. Risk is defined as uncertainties resulting in:
   a) Adverse outcome, adverse in relation to planned objectives or expectations
   b) Adverse variation of profitability or outright losses (financial risk)
   c) Both (a) & (b)
   d) None of these
2. Financial Risk is defined as
   a) Uncertainties in cash flow
   b) Variations in net cash flow
   c) Uncertainties resulting in outright losses
   d) Uncertainties resulting in adverse variation of profitability
   e) Both (c) & (d)
3. Uncertainties in cash inflows and / or outflows create uncertainties in:
   a) net cash flow
   b) profits
   c) Both (a) & (b)
   d) none of these
4. Which of the following is not correct?
   a) Lower risk implies lower variability in net cash flow
   b) Higher variability in net cash flow may result in higher profits or higher losses
   c) Higher risk would imply higher upside and downside potential
   d) Zero risk would imply no variation in net cash flow
   e) None of these
5. Return on zero risk investment would be ---- as compared to other opportunities available in the market:
   a) high, b) low c) medium d) higher or lower depending upon type of investment
   Strategic risk is a type of:
   a) exchange risk
   b) liquidity risk
   c) interest rate risk
   d) operational risk
   e) none of these
6. Investment in RBI bonds at 6.5% interest rate with a maturity of 5 years is investment:
   a) zero risk
   b) lower risk
   c) medium risk
   d) high risk
7. The capital requirement of a business would be lower when there is:
   a) lower variation in net cash flow
   b) lower risk
   c) lower possibility of loss
   d) all of these
   e) none of these
The key driver in managing a business is seeking enhancement in –

a) Return on investment  

b) Risk Management capability

c) risk adjusted return on capital  

d) all of these  

e) None of these

8. Risk adjusted return on investment is:

a) Netting risk in a business or investment against the return from this

b) Managing risk on investments

c) Managing-return on investment through risk management

d) Adjusting return on investment against the risk

11. An investment will be more preferred and higher will be the reward to investors when:

a) RAROC is higher  

b) RAROC is lower  

c) RAROC is one  

d) none of these

12. The banking book is generally not exposed to: a) liquidity risk b) interest rate risk c) credit risk d) operational risk e) None of these

13. Which of the following is / are characteristics of the assets held in Trading Book?

a) They are normally not held until maturity

b) They are normally held until maturity and accrual system of accounting is applied

c) Mark to market system is followed  

d) Both (a) & (c)  

e) Both (b) & (c)

14. Trading book is mainly exposed to

a) Market Risk

b) Market Liquidity Risk

c) Credit Risk

d) Operational Risk

e) All of these

15. The transactions relating to guarantees, letters of credit, committed or back up credit lines form part of a) Banking Book b) Trading Book, c) Off Balance Sheet Exposures d) All of these

16. The liquidity risk of banks arises from :

a) Funding of long term assets by short term liabilities

b) Funding of short term assets by long term liabilities

c) Funding of long term liabilities by short term assets

d) None of these

17. Funding liquidity risk is defined as:

a) Excess of liabilities over assets

b) Excess of long term liabilities over long term assets

c) Excess of short term liabilities over short term assets

d) Inability to obtain funds to meet cash flow obligations

18. Liquidity risk in banks manifest in different dimensions. Which of the

a) Funding risk arises from the need to replace net outflows withdrawal / non renewal of deposits

b) Time risk arises from the need to compensate for non receipt funds e.g. NPA

c) Call risk arises due to crystallization of contingent liabilities

d) Both (a) & (b)  

e) None of these

19. Where an asset maturing in two years at a fixed by a liability risk will be: a) Basis risk  

b) Yield curve risk  

c) Gap risk  

d) embedded option  

e) Risk

20. The risk of adverse variance of the mark to market value of change in market prices of interest rate instruments, equities, is called: a) Price Risk  

b) Market Risk  

c) Translation Risk  

d) Both a & b

21. In the financial market bond prices and yields are

a) inversely related b) directly related ,  

c) inversely or directly related depending on type of bond d) none of these

22. When a bank is unable to conclude a large transaction in a particular instrument near the current market price, it is called as a) Market risk b) Market Liquidity risk c) Default risk d) counter party risk

23. Potential of a bank borrower or counterparty to fail to meet its obligations according to agreed terms is called: a) credit risk  

b) default risk  

c) market liquidity  

d) market risk  

e) either (a) or (b)

24. The risk related to non performance of the trading partners due to counter party's refusal and or inability to perform is called -----risk : a) Liquidity, b) Operational , c) Counter Party , d) None

25. Country risk is an example of

a) Market risk  

b) Credit risk  

c) Operational risk  

d) Liquidity risk

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events is called as risk

a) legal  

b) compliance  

c) Fraud  

d) Operational

26. Which of the following is not a operational risk?

a) Compliance risk  

b) Transaction risk  

c) Legal Risk
27. Strategic Risk and Reputation Risk fall in the category of
   a) Market risk  b) credit risk  c) Operational risk  d) none of these
Risk arising from fraud, failed business processes and inability to maintain business continuity: a) Transaction risk  b) compliance risk  c) credit risk  d) none of these
28. Risk of legal or regulatory sanction, financial loss or reputation loss that a bank may suffer as a result of its failure to comply with any or all of the applicable laws, regulations etc. is called as:
   a) Transaction risk  b) Compliance risk  c) legal risk  d) Systems risk
31. Risk arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes is called:
   a) Reputation risk  b) Strategic risk  c) Operational risk  d) Management risk
32. Reputation Risk which arises from negative public opinion may result in:
   a) exposing an institution to litigation  b) financial loss  c) decline in customer base  d) all of these  e) none of these
33. Risk associated with a portfolio is always less than the weighted average of risks of individual items in the portfolio due to
   a) Diversification of risks  b) The fact that all accounts in a portfolio will not behave in unidirectional manner  c) The fact that risks in all the accounts in a portfolio will not materialize simultaneously  d) Both (a) & (b) only  e) All of these
34. Aggregated risk of the organizations as a whole is called:
   a) Transaction risk  b) Portfolio risk  c) Total risk  d) None of these

ANSWER : TEST YOURSELF – RISK AND BANKING BUSINESS

1 A 2 E 3 C 4 E 5 B 6 E 7 A 8 D 9 C 10 A
11 A 12 E 13 D 14 E 15 C 16 A 17 D 18 E 19 C 20 D
21 A 22 B 23 E 24 C 25 B 26 D 27 D 28 D 29 A 30 B
31 B 32 D 33 E 34 B

TEST YOURSELF : MCQ ON MARKET RISK

1) Risk may be defined as:
   a) Uncertainties resulting in adverse outcome  
   b) Adversity may be in connection with planned objective or expectation  
   c) When there is an adverse situation in terms of profitability is called financial risk  
   d) All the above
2) Which of the following Risk Factors may affect the Business adversity
   a) Sales volume and sales price  b) Purchase price  
   c) Administrative expenses  d) All these
3) The features of Zero Risk are:
   a) It does not have any uncertainty with it  
   b) There is no variation in net cash flow  
   c) Return on such investment would be lower  d) All these
4) Which of the following instruments do not contain Zero Risk?
   a) Investment in Shares  
   b) Investment in Bonds and Debentures  
   c) Investment in Term Deposits  
   d) Investment in Government Bonds
5) Which of the following statements is not correct?
   a) Large variation in net cash flows happens in the Business with higher Risk.  
   b) Capital requirement would be lesser in higher Risk Business  
   c) The profit potential would be lower in a Business with a lower Risk  
   d) Lower the variation in net cash flow lower the Risk
6) What is Risk Adjusted Returns on investment?
   a) It is the process where a Risk in a Business or investment, is netted against the returns from it.  
   b) Higher the Risk Adjusted Return on capital higher is the reward for investors.  
   c) The investors would have more performance for such investments  d) All these
7) A Bank may face the following Risk:
a) Balance Sheet Risk  b) Transaction Risk  c) Operating and Liquidity Risk d) All these
8) The factors contributing to Balance Sheet Risk are:
a) Mismatch between the currency  b) Maturity and interest rate pattern
c) Structure of Assets and Liabilities  d) All these
9) The Balance Sheet Risk may result in:
a) Interest rate mismatch Risk  b) Liquidity Risk
c) Foreign Exchange Risk  d) All these
10) Which of the following is not a Transaction Risk?
a) Mismatch in Assets, and Liabilities portfolio  b) Credit Risk
c) Price Risk  d) Instrument Risk
11) The features price Risk are:
a) It includes the risks of loss due to the change in value of Assets and Liabilities
b) It also includes market risk due to fluctuations in price of Assets in the market.
c) This may happen on account of Issuer Risk which depends on the financial strength of the issuer  d) All these
12) Which of the following contributes to Instrument Risk?
a) The nature of hybrid instruments in the market.
b) Fluctuations in the market conditions
c) The prices of various instruments may react differently from one another  d) All these
13) Which of the following is not market liquidity Risk?
a) Lack of liquidity of an instrument or Asset in time.
b) The financial strength of an instrument.
c) The loss may occur due to fluctuations in the market price at the times of liquidating  d) All these
14) Which of the following may affect the yield on Assets?
a) Commodity prices  b) Interest rates  c) Exchange rates  d) All these
15) The operating and liquidity risk may be on account of:
a) Failure of execute or settle a transaction
b) Adverse changes in the cash flows of transactions
e) (a) and (b) both  d) None of these
16) The objectives of Risk management are:
a) Survival of an organization  b) Earning stability
c) Efficiency in operations  d) All these
17) Which of the followings is not an objective of Risk management?
a) Uninterrupted operations  b) Higher deposit growth
c) Continued growth  d) Creating good image
18) What is Risk management?
a) It is the process of identifying and controlling the Risk
b) The process includes measurement of Risk
c) Monitor and control of Risk is also an important aspect of Risk management.  d) fill
19) The major components of Risk management are:
a) Risk identification  b) Risk measurement  c) Risk control  d) All these
20) Payment and Settlement Risk may be on account of:
a) Payments and collections  b) Funds transfer  c) Clearing and settlement
d) All these
21) Risk in trading securities may arise from the following activities:
a) Foreign exchange transactions  b) Equity holding
c) Lending and Repos  d) All these
22) Which of the followings is not an agency service of the Bank?
a) Extending credit cards  b) Escrow  c) Depository Receipts  d) Securities fending
23) What is the Off Balance Sheet Risk?
a) It is contingent in nature.
b) It can occur on account of issue of guarantees committed credit lines and issue of letter of credit.
c) Bank’s commitment may happen on account of failure to meet, payment obligations  d) All the above
24) The significance of contingent liability is:
a) It adds to the Revenue generation of the Bank  
b) Banks may also have Contingencies Receivables  
c) The Bank is obliged to meet the commitment only on account of failure to meet the  
obligation by the person on whose behalf bank has commitment  
d) All these

25) Derivative Risks are Off Balance Sheet and include the following:  
a) Swaps  
b) Futures  
c) Forward contracts  
d) All these

26) What kinds of Risks Off Balance Sheet exposure may have?  
a) Liquidity Risk  
b) Interest Risk  
c) Market Risk  
d) All these

27) Which of the following statements is correct?  
a) Contingency exposure may become fund based exposure.  
b) It can be a part of Banking Book or Trading Book  
c) It may include credit Risk  
d) All these

28) Which of the following statements is not correct?  
a) Off Balance Sheet exposures may become fund based exposure baseO OAF ceitoin contingencies.  
b) Where Bank provides payment they are known as contingencies given.  
c) Off Balance Sheet exposure may not have Interest Risk  
d) Where Bank is the Beneficiary, it is known as receivable contingencies.

29) The feature of liquidity risk are:  
a) It may arise from funding of long term assets by short term liabilities  
b) The liabilities are subject to Refinance Risk  
c) Funding liquidity is inability to obtain funds to meet cash flow obligations  
d) All these

30) Which of the following statements is correct?  
a) The funding Risk may arise from the need to replace net outflows due to unanticipated withdrawals of deposit.  
b) Time risk arises when performing Assets turn into non-performing Assets  
c) Call Risk arises due to crystallization of contingent liabilities  
d) All these

31) The features of Interest Rate Risk are:  
a) It is an exposure of Bank's financial condition to adverse movements in interest rates.  
b) It has direct effect on Net Interest Margin.  
c) It may also affect the market value of Equity  
d) All these

32) Which of the followings is not a mismatch Risk?  
a) Holding Assets and Liabilities with different maturity dates and amount  
b) Adverse movement in Interest Rate  
c) When liability is repriced on a maturity date and this causes variation in the Interest Rate  
d) All the above

33) What is Yield Curve Risk?  
a) When two different instruments maturing at different time horizon for pricing Assets and Liabilities.  
b) There may not be parallel movement in the Interest Rates of both of the instruments.  
c) Non parallel movement in the Yield Curve may affect the Net Interest Income  
d) All the above

34) Which of the following statements is correct regarding Yield Curve Risk?  
a) When Interest Rates are floating Banks may price Assets and Liabilities on different instruments such as Treasury Bills, Call Money Rates, MIBOR etc.  
b) A Bank needs to evaluate the movement in Yield Curves and impact of the curve on portfolio value and income  
c) If a liability is raised through 91 days T Bill and is used to fund on Asset for 364 days it could be a Yield Curve Risk  
d) All these

35) The features of Basis Risk are:  
a) When interest rates of different Assets, Liabilities and Off Balance Sheet items change in different magnitudes it is called Basis Risk.  
b) When Interest Rates of Asses rise in different magnitudes as compared to interest rate on corresponding liability which may result in variation Net Interest Income, it would be known as Basis Risk.  
c) The Basis Risk is quite visible in a Volatile Interest Rate Scenario.  
d) All these

36) Which of the followings is not correct regarding the Basis Risk?  
a) When a variation in the market interest rate effects Net Interest Income to expand it will have unfavorable basis shifts.  
b) When interest rate movement causes Net Interest Income to contract the basis would have moved against the Bank.  
c) The loan portfolio is funded out of a composite liability portfolio, this causes higher degree of Basis Risk  
d) None of these

37) The features of Embedded Option Risk are:
a) When a Bank is exposed to Risk due to prepayment of a loan and premature withdrawal of term deposit it is called Embedded Option Risk.
b) This can be experienced in volatile situations.
c) The greater the magnitude of changes in interest rate the higher will be the Embedded Option Risk.
d) All these

38) Which of the following statements is not correct regarding Embedded Option Risk?
a) This results in reduction of projected cash flow,
b) It does not affect the Bank's income.
c) The risk may arise due to premature exercise of call/put options.
d) The withdrawals of deposits before maturity date would also cause Embedded Option Risk.

39) What is Reinvestment Risk?
a) When Interest Rate at which the future cash flows can be reinvested are uncertain it is called Reinvestment Risk.
b) Any mismatch in cash flows will expose a Bank.
c) Since the market interest rates move in different directions, it will have variation in net interest income
d) All these

40) The features of Net Interest position Risk are:
a) When there are more earning Assets than paying liabilities, interest rate may arise if market interest rates adjust downwards.
b) It may result in reduction in Net Interest Income.
c) It will have an impact on the economic value of Bank's Assets
d) All these

41) What are the features of Price Risk?
a) When Assets are sold before their maturities it may result in Price Risk.
b) The Price Risk is closely associated with the Banks Trading Volume.
c) Bank may create such Trading investments out of short term movements in interest rates
d) All the above

42) Which of the following statements is not correct?
a) The Bond prices and yields are directly related.
b) Market Risk may apply for Pricing Risk for the Assets held in the Trading Book.
c) The Market Risk may also apply to foreign currency Risk
d) None of these

43) What is Forex Risk?
a) A risk which may arise due to adverse exchange rate movements is called Forex Risk.
b) This occurs on account of an open position in spot or forward contracts.
c) It is applicable on an individual foreign currency.
d) All these

44) A Counterparty Risk is:
a) It arises due to non-performance of the Trading partners where counterparty may refuse to perform.
b) It is treated as transient Financial Risk.
c) It is more associated with Trading.
d) All these

45) The features of Country Risk are:
a) When a Risk arises due to imposition of restrictions by a country and a borrower is not able to perform the promise.
b) The Risk arises due to external factor.
c) A counterparty has no control on such Risk.
d) All these

46) An Operational Risk can be defined as:
a) A risk resulting from lack of internal controls or systems is an Operational Risk.
b) Transaction Risk is also a part of Operational Risk.
c) Compliance Risk is also included in Operational Risk
d) All these

47) Which of the following statements is not correct?
a) Strategic Risk is the part of Operational Risk.
b) Any Risk which is not categorized as market risk may be Operational Risk.
c) Scope to Operational Risk is very wide.
d) Operational Risk may also arise due to external factors.

48) Which of the followings is not Operational Risk?
a) Fraud Risk
b) Adverse movement in Foreign Exchange Risk.
c) Communication Risk
d) Documentation Risk

49) A Transaction Risk is:
a) Risk arising from fraud either internal or external.
b) It may be on account of failed Business processes.
c) When a Business is not able to maintain the continuity, it is known as Transaction Risk.
d) All the above

50) Which of the following statements is not correct?
a) Failed internal process is Transaction Risk.
b) When a Bank fails to comply with regulatory requirements, it may face Compliance Risk.
c) Compliance Risk is also known as Integrity Risk.
d) Reputation Risk is not the Operational Risk.

51) The non-compliance of the following may cause Compliance Risk:
 a) Standards of good practice
 b) Codes of conduct
 c) Compliance of applicable loans
 d) All these

52) Strategic Risk can be defined:
a) A Risk arising from adverse business decisions.
b) It is a function of compatibility of organizations strategic goals.
c) This is measured from resources deployed to reach goals and quality of implementation
d) All the above

53) Strategic Risk may arise due to:
a) Improper implementation of decisions
b) Lack of monitoring and control
c) Lack of responsiveness to industry changes
d) All these

54) The consequences of Reputation Risk may be:
a) Negative public opinion
b) Decline in customer base
c) Financial loss to the organization
d) All these

55) Which of the following statements is correct?
a) Since a Business have variations in cash flows which results in Risk.
b) The Risk in a Business may be measured by using standard deviation of past performance.
c) Standard deviation of risk may range from zero to one.
d) All these

56) Financial Risk can be defined as:
a) Uncertainties in cash flow.
b) Uncertainties resulting in adverse variation of profitability.
c) A risk which may resulting outright losses.
d) Variations in Net Cash Flows.

57) Strategic Risk can be classified as:
a) Operational Risk
b) Interest Rate Risk
c) Forex Risk
d) None of these

58) Portfolio Risk is less than weighted average of individual Risks in the portfolio due to:
a) Diversification effect
b) Individual Risk do not materialize in an unidirectional manner
c) (a) and (b) both
 d) None of these

59) If a Bank funds its Assets from a pool of composite liabilities, it may face the following risk in addition to Credit and Operational Risk:
a) Basis Risk
b) Mismatch Risk
c) Liquidity Risk
d) All these

60) When a Bank sanctions a loan to a large Borrower, which of the following risks it may not face?
a) Liquidity Risk
b) Market Risk
c) Credit Risk
d) Operational Risk

61) The Risk mitigation measures may result in:
a) Reducing downside variability
b) Reducing upside potential
c) (a) and (b) both
 d) None of the above

62) If a depositor deposits in post office time deposit scheme, it is:
a) Zero Risk Investment
b) Low Risk Investment
c) Reasonable Risk Investment
 d) High Risk Investment

63) If a Borrower repay a pre matured loan, a Bank may have the following Interest Rate Risk:
a) Yield curve Risk
b) Embedded Option Risk
c) Basis Risk
d) Mismatch Risk

64) If a daily volatility of a stock is one percent what is the approximate volatility for 10 days? a) 3% b) 10% c) 1% d) 4%

65) Capital charge component of pricing Account for:
a) Internal generation of capital  b) Cost of capital  
c) (a) and (b) both  
d) Loss Premium

66) Which of the following financial instruments are included in trading transactions?  
a) Debt securities  b) Equity  c) Forex instruments  
d) All these

67) Which of the following a Trading Book of a Bank does not consist?  
a) Cash Reserve with RBI  
b) Derivatives held for trading  
c) Positions in financial instruments arising from matched market making.  
d) Hedging positions

68) A Bank's Trading Book exposure may arise on account of the following:  
a) Adverse changes in the interest rate.  
b) Currency exchange rate unfavourable movements.  
c) Market liquidity  
d) All these

69) Which of the following may be adversely affected due to Trading Book Risk?  
a) Bank's Earnings  b) Net Interest Margin  c) Bank's Capital  
d) All these

70) The features of Earnings of market portfolio are:  
a) Profit and loss arising from transactions.  
b) The profit and loss between two dates is the variation of the market value.  
c) Any decline in value results in a market loss.  
d) All these

71) What is Trading Liquidity?  
a) It is ability to liquidate positions without affecting market prices.  
b) Without attracting the attention of other market participants.  
c) (a) and (b) both  
d) None of these

72) Liquidation Risk result in:  
a) Average change in market price.  
b) Inability to liquidate position at a fair market price.  
c) Inability to liquidate position at any price.  
d) All these

73) Which of the following statements is correct?  
a) Assets Liquidation Risk is a situation where a specific Asset faces lack of trading liquidity  
b) Market Liquidation Risk is a situation where liquidity crunch is general  
c) The above (b) affects trading liquidity adversity  
d) All these

74) The features of Credit Risk are:  
a) Credit Risk of debt instruments is indicated by credit rating.  
b) It indicates the Risk level associated with the debt instrument.  
c) Lower the Risk level, lower is the spread over Risk Free Rate  
d) All these

75) The consequences of Credit Risk are:  
a) When Rating of a financial instruments is lowered, the spread over the Risk Free Rate increases.  
b) The price of the instruments is declined.  
c) Where a default in payment of either the principal or interest occurs, market price of financial instruments deteriorates.  
d) All these

76) Which of the following statements is not correct?  
a) Credit Risk may arise on account of default of the Issuer/Borrower.  
b) Rating migration may not cause Credit Risk.  
c) Deterioration of the credit quality of the instrument have adverse impact on the price of financial instrument  
d) None of these

77) Derivatives are:  
a) Over the counter instruments.  
b) They are not liquid as market instruments.  
c) Banks hold derivatives until maturity.  
d) All these

78) Which of the following is not a derivative instrument?  
a) Interest Rate Swap  b) T. Bill  c) Currency Swap  
d) Options

79) Which of the following statements is correct regarding Derivative?  
a) Mark to market value of a derivative depends on market movements.  
b) It is the present value of all future flows at market rates.  
c) Hold to maturity risk is also known as counterparty risk  
d) All these

80) The current credit risk can be defined as:  
a) It is a risk exposure in the current liquidation value.
b) Value of financial instrument varies depending upon market factors.
c) Credit risk amount varies with the change in the value
81) What is Settlement Risk?
   a) In a financial market transaction one party pays money and receives the instruments.
   b) The counterparty receives the money and parts with the instrument.
   c) If any of the above transacting parties defaults it is known settlement risk.
   d) All the above
82) Which of the following is true regarding settlement risk?
   a) It is a systematic Risk.
   b) There is much emphasis now a days on Risk free settlement.
   c) In India we have now real time gross settlement system.
   d) All these
83) Which of the followings Market Risk Management Division does not consist?
   a) Risk Management Committee
   b) Asset Liability Management Committee
   c) The Asset Liability Management Support Group
   d) All these
84) Which of the following are the responsibilities of Risk Management Committee?
   a) Deciding prudential limits.
   b) Evaluating Risk measurement models
   c) Setting guidelines for market risk management.
   d) All these
85) What is sensitivity?
   a) It indicates deviation of market price due to unit movement of a single market parameter.
   b) If the liquidity in the market increases it would result in increased demand.
   c) The increased demand may increase market price.
   d) All these
86) The market parameters which parameters which derive market value are:
   a) Demand Supply Position
   b) Interest Rate
   c) Inflation
   d) All these
87) Which of the following is relevant to the measurement of sensitivity?
   a) This indicates the degree of risk associated with the portfolio against the changes in interest rate.
   b) It does not consider the impact of other parameters.
   c) Sensitivity is more appropriate measurement to measure impact of interest rate changes
   d) All the above
88) What is Basic Point Value?
   a) It indicates the change in value due to one basis change in market yield.
   b) It is a risk measurement tool.
   c) Higher the Basic Point value, higher is the risk associated with the instrument.
   d) All the above
89) Which of the following is not relevant regarding Basis Point value?
   a) This helps to calculate profit or loss for a given change of yield.
   b) Basis Point value does not change with the remaining maturity.
   c) It may decline with time.
   d) It can be zero on the day of maturity.
90) Which of the following is significant regarding Duration?
   a) This concept was introduced by Frederick Mc Cauley.
   b) It was proposed in 1938.
   c) It describes bond’s price sensitivity to yield change with a simple number.
   d) All the above
91) Which of the following is correct regarding Duration?
   a) The longer the duration of a security the greater will be the price sensitivity.
   b) Bond price changes can be measured by using modified duration.
   c) It is discounted by one period yield to maturity.
   d) All these
92) The Relationship of modified duration can be defined as:
   a) % change in price + (- ) modified duration multiplied by yield change.
   b) Yield change
   c) Change in market price and change in interest
   d) None of these
93) What is Downside Risk?
   a) It is a comprehensive measure of risk as it integrates sensitivity and volatility with the adverse effect of uncertainty.
   b) This is the most reliable model.
   c) Downside potential only captures possible losses ignoring profit potential.
   d) All these
What is Value at Risk?

a) It can be defined as the loss amount accumulated over a certain period that is not exceeded in more than a certain percentage of all time.
b) It is defined as the predicted worst case loss at a specific confidence level over a certain period of time assuming normal trading conditions.
c) Value at Risk model relies on a model of random changes.
d) All these

What does it signify?

a) There is only one change in 100 that daily loss will more than 100 crore under normal trading conditions.
b) There is one percent chance that the daily loss may exceed Rs. 10 crore
c) It does not estimate losses in abnormal situations
d) All these

The features of the value at Risk are:

a) It measures potential loss in market value of a portfolio.
b) It uses estimated volatility and correlations with a given horizon.
c) It is measured with a given confidence interval.
d) All these

The conditions for calculating value at risk are:

a) Volatility of price. b) Correlation of prices with respect of all other Assets/Liabilities in the portfolio.
c) Normal circumstances means that the value at risk can not be measured when market is under abnormal conditions

d) All these

What is yield volatility?

a) It is degree of variance in yield.
b) This is unaffected by time and duration.
c) It rises when the yield fails.
d) All these

The price volatility is:

a) A degree of variance in price.
b) The yield does not effect the price volatility.
c) The time and duration affect the volatility substantially.
d) All these

Which of the following steps are involved in calculating price volatility?

a) It is multiplication of yield volatility and Basis Point Value.
b) The above (a) is then multiplied by the yield.
c) The above (b) is divided by price.
d) All these

The approach to calculate the value at risk are: a) Covariance matrix method b) Historical simulation c) Monte Carlo simulation d) Any of these

What are the basis parameters for calculating value at risk?

a) Holding period b) Confidence interval c) Historical time horizon d) All these

The features of correlation approach are:

a) It can be applied only in normal distribution function.
b) It uses standard deviation estimates.
c) It is useful on providing first hand estimation.
d) All these

Which of the following is relevant to correlation approach?

a) This depends on observed behaviour of market variables.
b) Greater frequency of small changes occurring within a standard deviation of the mean.
c) Lower frequency of changes that are quite manifest between two standard deviations.
d) All the above

How the historical simulation approach works?

a) The hypothetical profit and loss portfolio of current positions is estimated for everyday in the data sample.
b) The correlation among the exposures and the volatility are implicit in the historical price movements.
c) From the profit and loss values, the biggest gain and worst loss limits are determined.
d) All the above

The features of historical simulation approach are:

a) The approach applies the historical price movements directly.
b) 100 or more trading data is used.
c) It calculates change in the value of a position using the actual historical movements of the underlying asset.
d) All these

What is the impact of length of historical period chosen?

a) It affects the results.
b) If period chosen is too short it may not establish relationships between the various assets and within each asset class.

c) If the period is too long it may be too stale to predict the future. d) All these

108) The advantages of historical simulation approach are:

a) It does not require the user to make any explicit assumptions about correlations and the dynamics of risk factors.
b) The simulation follows every historical move.
c) (a) and (b) both d) None of these

109) What is Monte Carlo simulation approach?

a) It can deal with any pattern of market movements.
b) It has higher efficiency.
c) Once the particular distribution is identified, the simulation can take care of scientific treatment. d) All the above

110) The features of Monte Carlo simulation are:

a) It calculates the change in the value of portfolio
b) It uses a sample of randomly generated price scenario.
c) The user make certain assumptions d) All these

111) What are the assumptions required to be made in Monte Carlo simulation approach?

a) Correlation between Risk Factors b) Market structure

c) Volatility of Risk factors d) All these

112) Why value at risk is useful?

a) It translates portfolio exposures.
b) It aggregates and reports multi product multi market exposures into one number.
c) It meets external Risk management disclosure and expectation. d) All these

113) Which of the following is not an advantage of value at risk?

a) It is not a worst case scenario.
b) It is an important component of current best practices in Risk management.
c) It has a value as a probabilistic measure of potential losses. d) None

114) Which of the following statements is correct regarding value at Risk?

a) It is used for decisions as to what business to do and what not to do.
b) It can not substitute sound management judgment and internal control methods.
c) It is used to measure and manage market Risks in trading and investment portfolio.
d) All the above

115) The features of volatility measurement are:

a) Value at Risk uses past data to compute volatility.
b) Arithmetic moving average from historical time series data is used to estimate volatility.
c) Exponential moving average method may also be used to estimate volatility.
d) All the above

116) What is Back Testing?

a) It is a process where model based value at Risk is compared with the actual performance of the portfolio.
b) The Testing is used to assess the accuracy of existing models.
c) It requires comparison with actual performance on a continuous basis for a given period. d) All the above

117) What is Stress Testing?

a) It is used to determine possible changes in the market value of a portfolio which could arise due to non-normal movement in one or more market parameters.
b) This involves identifying market parameters to stress, quantum of stress an determine time frame. The above parameters are used on portfolio. d) All these

118) Which of the following techniques stress testing covers?

a) Simple sensitivity analysis b) Scenario analysis c) Extreme value theory, d) All these

119) The simple sensitivity test is:

a) A simple sensitivity test isolates the short term impact on a portfolio’s value.
b) It works on predefined moves in a particular market risk factor.
c) (a) and (b) of the above d) None of these

120) What is scenario analysis?

a) It analyses the shocks which may affect number of market risk factors if an extreme even occurs.
b) It assesses potential consequences of a firm.
c) It can be based on historical event or hypothetical event. d) All these

121) The features of Extreme Value Theory are:
a) It is the statistical theory on the behaviour of the tails (very high and low potential values) of probability distribution.
b) It is more flexible.
c) It helps in better capture the risk of loss in extreme but possible circumstances.
d) All the above

122) The features of a good stress test are:
a) Be relevant to current position.
b) It considers changes in all relevant market rates.
c) Consider market liquidity
123) In which of the following manners the stress tests are used?
a) To manage funding risk.
b) Set limits for traders.
c) To determine capital changes on trading desk position
124) The steps to monitor and control the Risk include: a) Policy guidelines limiting roles and authority.
b) Guidelines on portfolio size and mix.
c) Systems and procedures to capture all risks.
125) What is relevant to limits and triggers?
a) Sensitivity and value at Risk limits of trading portfolios are measured daily.
b) Approved management triggers or stop loss for all mark to market risk taking activities.
c) Fixing appropriate market risk limits for basis risk.
d) All these
126) Which of the following is to be avoided to manage risk of trading liquidity?
a) In frequently traded instruments.
b) Instruments with unusual tenors.
c) One side liquidity in the market.
d) All these
127) Risk mitigation is:
a) Reduction in market risk which is achieved by adapting strategies that eliminate volatility of portfolio.
b) Risk mitigation measures reduce upside potential or profit potential.
c) The risk mitigation strategies which involve counterparty will always be associated with counterparty risk.
d) All these
128) Which of the following statements is correct regarding correlation measures?
a) Prices of two financial instruments which have perfect negative correlation would move exactly in opposite directions.
b) If financial instruments have negative correlation and it is not perfect prices would move in opposite direction but not be ‘exact.
c) The price volatility will be considerably low.
d) All these
129) If a portfolio have fixed rate bond and an interest rate swap with long on variable rate of interest. What would be the consequences?
a) As market interest rates move up the portfolio will suffer losses on Bond.
b) The Bond price would come down due to upward movement in interest rates.
c) Swap valuation will increase.
d) All these
130) The features of an option are:
a) It, is a method to hedge market risks.
b) An option provides a right and not obligation.
c) The cost involved in an option is called option premium.
d) All these
131) Which of the following statements is correct regarding option?
a) A long position on call option confers a right to buy the underlying instrument.
b) A pre determined price is called strike rate/price.
c) A long position on put option confers a right to sell the underlying instruments.
d) All the above
132) A Bank expects fall in price of a security if it sells in the market. The bank may face the following Risk:
a) Asset Liquidation Risk
b) Market Risk
133) An 8 year 8% semi annual bond has a basis point value of Rs. 125. The yield on the bond has increased by 5 basis points. What would be the effect?
a) A loss of Rs. 625
b) A profit of Rs. 625
134) 1 day value at risk of a portfolio is Rs. 500,000 with 95 percent confidence level. In a period of 6 months (125 working days) how many times the loss on the portfolio may exceed Rs. 500,000:
a) 4 days
b) 5 days
c) 6 days
d) 7 days
135) A Bank suffers loss due to adverse market movements of a security. The security was held beyond defeasance period. The Bank may suffer the following risk:
a) Market Risk
b) Operational Risk
136) A security which was rated A plus migrates to A rating. The risk will be:
a) Market Risk  b) Credit Risk  c) Market Liquidation Risk  d) Operational Risk

137) A Bond which have remaining maturity of 5 years is presently yielding 6%. Its modified duration is 5 years. What would be its Merton’s duration?
a) 5.05%  b) 3.77%  c) 5.30%  d) 6.00%

138) The stress testing is needed for the following reasons:
a) It helps calibrating value at Risk model:
b) It assesses Risk due to abnormal movement of market parameters.
c) It is an additional Risk measurement tool.
d) It is more accurate than value at Risk method.

TEST YOURSELF : MCQ ON CREDIT RISK

139) The features of Credit Risk are:
a) It arises from lending activities of a Bank.
b) When Borrower does not pay either interest or principal as and when due for payment.
c) If the loan is demand loan, the Borrower fails to make payment as and when demanded.
d) All the above

140) The Credit Risk may arise from:
a) Direct lending 
b) Not crystallization of liability under the guarantees 
c) In case of securities if settlement is not affected 
d) All these

141) What is default Risk?
a) It is the potential failure of a Borrower to make promised payments. 
b) In case of default a fraction of the obligation is paid, it is called recovery rate. 
c) The default may be partly or wholly. 
d) All these

142) The features of credit spread Risk are:
a) The risk may be due to worsening in credit quality. 
b) This may result in widening of credit spread. 
c) This is known as credit spread Risk or down grade Risk. 
d) All these

143) Which of the following statements is not correct?
a) Loans are usually marked to market. 
b) Capital market portfolios are marked to market. 
c) Default Risk and down grade Risk are transaction level Risks. 
d) Risk associated with credit portfolio as whole is termed portfolio Risk.

144) Portfolio Risk has following components:
a) Systematic as intrinsic Risk 
b) Concentration Risk 
c) (a) and (b) both 
d) None of these

145) The Systematic Risk is:
a) When portfolio Risk is reduced due to diversification. 
b) When portfolios are diversified among the various market segments the risk is reduced to a minimum level. 
c) This is known as systematic Risk 
d) All these

146) The concentration Risk is:
a) When portfolios are concentrated in form of a particular segment it gets concentration Risk 
b) If the particular segment does not perform well the portfolio will have concentration Risk. 
c) This happens only when portfolio is not diversified and it has more weightage in respect of a particular industry 
d) All these

147) Which of the followings is relevant to systematic Risk?
a) The Risk is associated with the economy. 
b) If the economy does not perform well, the portfolio will be affected. 
c) When economy stagnates, the credit portfolio of Bank does not perform well. 
d) All the above

148) What is Risk diversification?
a) The diversification takes place across the Trade and Borrowers. 
b) Diversification occurs at the Borrower and geographical level both. 
c) The theory applies to diversification is that different firms do not default at the same time. 
d) All the above

149) Risk measurement consists of:
a) Measurement of Risk through credit rating.
b) Quantifying the Risk by estimating expected loan losses.
c) Estimating unexpected loan losses. d) All these

150) The features of credit Rating are:
a) It is a process to assess the capability of a Borrower to honour its financial commitments in future.
b) The process helps in deciding the price of loans and advances.
c) Defaults in credit portfolio of a Bank may also be estimated. d) All these

151) The guidelines of RBI on credit Rating are:
a) The Banks should apply credit Rating to the Borrower accounts and classify categorywise.
b) To develop and maintain necessary data on defaults of Borrowers.
c) The Bank may estimate expected defaults, expected contribution art; by requirements to maintain the portfolio. d) All these

152) Credit Rating models differentiate the Borrowers in terms of degree of stability:
a) The Sales volume b) Net profit c) Revenue generation d) All these

153) Which of the followings is not correct?
a) The profitability has direct affect on Rating.
b) A highly profitable firm may have higher level of uncertainties in revenue generation.
c) Less profitable firm may have more stable revenue generation.
d) Stability in revenue generation is an important aspect in developing a credit Rating model.

154) What is Rating Migration?
a) It indicates change in the Rating of a Borrower over a period of time.
b) The Rating model used does not change.
c) It is useful when migration of large number of accounts of similar rating is observed.
d) All the above

155) Which of the following factors, a Rating model takes in the account?
a) The Risk drivers in the various areas have been included in the model.
b) The model meet the market standards.
c) (a) and (b) both d) None of the above

156) The popular credit Rating models
a) The Altman's Z score b) J.P. Morgan c) Credit Swiss d) All these

157) The instruments of credit Risk management transaction level are:
a) Risk Analysis Process b) Credit Appraisal Process c) Credit Audit and Loan Review d) All these

158) The efficiency of credit Risk management can be improved by:
a) Identifying the credit quality of Borrowers objectively.
b) Increasing default analysis.
c) Providing early warning signals for deterioration in credit Risk of Borrowers.
d) All the above

159) Bank's loan policy document should contain:
a) Loan Review Mechanism b) Rating Standards and Benchmarks c) Credit Approval Mechanism d) All these

160) To limit the credit Risk prudential limits may be specified in respect of:
a) Financial and profitability b) Credit exposure c) Maturity profile of the loan book d) All these

161) What is Risk pricing?
a) It stresses on Risk based pricing of loans.
b) It helps in generation of adequate Risk adjusted return on Capital.
c) The credit spread should take into account the expected loss rates and charges on Capital. d) All the above

162) The features of Risk return pricing strategy are:
a) Borrowers with weak financial position should be priced high.
b) Pricing of credit Risk should take into account the probability of default.
c) The pricing should be linked to credit Rating. d) All these

163) Which of the following activities are important for monitoring and control of portfolio credit weakness?
a) Identification of portfolio credit weakness.
b) Measurement of specific risk associated with individual credit exposure.
164) Which of the following is not an activity to monitor and control the Risk?
   a) To set exposure limits to contain concentration Risk.
   b) Deciding Risk pricing to individual Borrowers.
   c) To follow value at Risk model.
   d) To fix quantitative ceilings on aggregate exposure in specified Rating categories.

165) Which of the followings are important to maintain portfolio quality?
   a) Quantitative ceilings on aggregate exposure.
   b) Rating wise distribution of Borrowers in various industries.
   c) Monitoring of exposure performance.
   d) All these

166) Which of the followings is relevant to maintain the quality of the portfolio's?
   a) To undertake portfolio reviews stress tests and scenario analysis.
   b) To introduce discriminatory time schedule for review of Borrowers.
   c) (a) and (b) both
   d) None of these

167) The external credit Risk factors are:
   a) State of the economy
   b) Wide fluctuations in equity price
   c) Foreign Exchange rate
   d) All these

168) The new and emerging opportunities for credit expansion are:
   a) Pass through certificate
   b) Syndicated loans
   c) Project finance
   d) All these

169) Which of the followings new products have different risks:
   a) Secondary loan trading
   b) Securitisation
   c) Credit derivatives
   d) All these

170) The objective of Loan Review Mechanism are:
   a) Identifying loans with credit weaknesses and initiate timely action.
   b) To evaluate portfolio quality.
   c) To ensure adequate provision for loss assets
   d) All these

171) Which of the followings is relevant to Loan Review Mechanism?
   a) To ensure compliance of loan policies and procedures
   b) To supply information on credit Administration
   c) (a) and (b) both
   d) None of these

172) The Loan Review Mechanism should focus on:
   a) Accuracy and timely credit Ratings.
   b) Compliance of internal systems and procedures
   c) Post sanction monitoring and follow-up
   d) All these

173) The Loan Review Mechanism should not focus on:
   a) Sufficiency of loan documentation
   b) Extent of deposits held with the Bank by a Borrower
   c) Portfolio quality.
   d) Suggesting improvements in portfolio quality.

174) The quality of credit decisions should be evaluated with reasonable time say:
   a) 1 month
   b) 2 months
   c) 3 to 6 months
   d) once in a half year

175) The features of credit Risk mitigation are:
   a) It is a process through which credit Risk is reduced.
   b) Credit review mechanism techniques reduce credit Risk.
   c) Advantage of Risk mitigation must be weighed against the Risk acquired.
   d) All the above

176) How the credit Risk can be mitigated?
   a) Exposure collateralized by first priority claim.
   b) Buying a credit derivative to offset credit Risk.
   c) Asset securitization can also be used to reduce the credit Risk.
   d) All these

177) The process of securitization is:
   a) It is a process where financial securities are issued against the cash flow generated from a pool of Assets.
   b) A special purpose vehicle is created for the purpose
   c) Special purpose vehicle issues financial securities to service interest and payments.
   d) All the above

178) The securitization include Asset backed securities like:
   a) Mortgage loans
   b) Currency swaps
   c) Credit derivatives
   d) All these
179) Which of the followings is correct regarding securitization?
   a) The originatied Bank transfers the ownership of such Assets to the securitized company._
   b) The original Bank transfers credit Risk to the investors.
   c) The securitized company may raise resources from the market d) All the above

180) What are credit derivatives?
   a) When credit Risk from Assets are unbundled into a commodity and traded in the market they are called credit derivatives. b) Credit derivatives transfer risk in the credit Assets without transferring underlying Asset, c) They are Off Balance Sheet financial instruments. d) All these

181) The motives for credit derivatives for protection buyers are:
   a) Transferring credit Risk without transferring the Credit Asset.
   b) Hedging against credit Risks. -
   c) Better portfolio management by diversification.  d) All these

182) Motives for credit derivatives for protection sellers are:
   a) Yield enhancement b) Speculation c) Diversification of credit Risk, d) All these

183) The credit linked notes are:
   a) They are Off Balance Sheet items.
   b) They convert credit derivatives into Capital market instruments.
   c) Special separate company formed for this purpose can raise money from the market by issuing credit linked notes.
   d) All these

184) Which of the followings is not a credit Risk?
   a) Default Risk b) Credit Spread Risk c) Intrinsic Risk d) Basis Risk

185) Risk of a portfolio with over exposure in steel sector will be:
   a) more than systematic Risk b) equal to intrinsic Risk c) Less than intrinsic Risk d) None of these

186) Which of the following statements is correct?
   a) Credit Risk measurement is based on credit Rating.
   b) Effective monitoring and control is needed to control lending Risk.
   c) Loan Review Mechanism is an effective tool for constantly evaluating the quality of loans. d) All the above

187) The Risk that arises due to worsening of credit quality is:
   a) Intrinsic Risk b) Credit Spread Risk c) Portfolio Risk d) Counterparty Risk

188) Which of the following skills are necessary for effective management of credit portfolio?
   a) Knowledge of credit Rating models.
   b) To maintain necessary data on defaults of Borrowers rating category wise.
   c) Both (a) and (b) d) None of these

189) Which of the following models combines five financial ratios using reported accounting information and equity values to produce an objective measure of Borrowers financial position?
   a) Altman's Z score b) Credit Metrics c) Credit Risk Plus d) All these

190) A transaction where financial securities are issued against the cash flow generated from a pool of Assets is called: a) Securitisation b) Credit Default Swaps c) Credit Linked Notes d) Total Return Swaps

191) Under the process of securitization the Rights of original lender are transformed in form of: a) Securitised company b) Investors c) Special purpose vehicle d) None

192) The features of total return swaps are:
   a) The protection buyer swaps with the protection seller total actual return on an asset in return for premium.
   b) The premium is arrived at by adding a spread to a reference rate like LIBOR.
   c) The protection seller is able to synthetically create an exposure to the reference asset without actually lending to it.
   d) All these

TEST YOURSELF : MCQ ON OPERATIONAL RISK

193) The operational Risk may arise on account of failed or inadequate:
   a) internal processes b) people and systems c) external events d) All

194) Operational Risk on account of people oriented causes may include:
   a) negligence b) incompetence c) insufficient training d) All these

195) The Transaction Based Causes in the operational Risk may include:
   a) Business volume fluctuation b) Organisational Complexity c) Product Complexity d) All these

196) Operational control based causes will include the following:
197) Technology oriented causes under operational Risk will not include the following:
a) Poor technology b) Lack of management supervision
c) Lack of automation d) Poor design development

198) Effect based operational Risk may include the following:
a) Legal Liability b) Regulatory compliance and taxation penalties
c) Restitution d) All these

199) The following events may result in operational Risk:
a) Internal Fraud b) External Fraud
c) Employment practices and work place safety d) All these

200) Operational Risk may arise on account of the following events:
a) Damage to physical Assets b) Business disruption
c) Execution delivery and process management d) All these

201) How many principles of Basel II document are relevant to organization level? a) 10 b) 3 c) 7 d) 2

202) The operational Risk management policy should cover the following:
a) Operational Risk management structure b) Role and Responsibilities
c) Operational Risk management processes d) All these

203) The process of operational Risk management include:
a) Identification of Risk/control. b) Implementation of Qualitative Approach to assess operational Risk_
c) To analyse operational Risk profile d) All these

204) Which of the following activities are relevant to operational Risk control practices? a) Collection of operational Risk data. b) Adequate feedback mechanism
c) Management and control of large exposures d) All these

205) The operational Risk can be measured through:
a) the Basic indicator approach b) the Standardised approach
c) Advanced measurement approach d) All these

206) The Feature of Basic Indicator Approach are: a) A Bank must hold capital for operational Risk.
b) The amount of Capital should be equal to 15% of positive annual gross income.
c) Gross income is defined as net interest income plus net non-interest income
d) All the above

207) Under the standardized approach, Banks divide their business activities into following Business lines: a) 2 b) 8 c) 10 d) 12

208) What is the process of Standardised Approach? a) Gross income is a broad indicator under each business line_ b) Gross income serves as a scale of Business operations.
c) The capital charge for each business line is calculated by multiplying gross income by a factor assigned to that business line. d) All these

209) Which of the following Business lines, Beta Factor is 18%? a) Corporate Finance b) Trading and Sales
c) Payments and Settlement d) All these

210) Which of the followings is correct regarding Business Line Beta Factors? a) Retail Banking and Asset Management 12% b) Retail Brokerage 12%
c) Commercial Banking 15% d) All these

211) The steps involved in operating profiling are: a) Identification and quantification of operational Risks. b) Identification of Risk concentration.
c) Formulation of Bank's strategy for operational Risk management d) All these

212) Which of the followings is relevant for estimation of level of operational Risk’? a) Probability of occurrence b) Potential financial impact
c) Impact of internal controls d) All these

213) Estimated impact of internal control depends on: a) Historical effectiveness of internal controls. b) Estimated impact of internal controls on Risks.
214) Estimated level of operational risk will be calculated as:
a) Estimated probability of occurrence
b) Multiply (a) by estimated potential financial impact.
c) Multiply (b) by estimated impact of internal controls
d) All the above steps are considered

215) How operational risk mitigation could be achieved?
a) Insurance cover may minimize the risk.
b) Capital allowance under insurance is available.
c) Qualitative approach in operational framework would also be useful. d) All these

216) What is scenario analysis?
a) It involves expert opinion in conjunction with external data.
b) It evaluates exposure to high severity events.
c) The approach uses the knowledge and experience of risk management experts.
d) All the above

217) Scenario analysis should be used:
a) To assess the impact of deviations from the correlation assumptions.
b) To evaluate potential losses arising from multiple simultaneous operational risk loss events. c) Both (a) and (b) d) Only (a)

218) Integrated risk management is:
a) To manage all risks that are associated with all the activities in an organization
b) The ultimate impact of all the activities lies on revenue generation.
c) The sum total of all risk impacts is a crucial factor. d) All these

219) In a bank integrated risk includes:
a) Liquidity Risk b) Interest rate Risk c) Market and credit Risk d) All these

220) Which of the following is relevant to integrated risk?
a) Total risks of an organization are also the net effect of all risks associated with an organization.
b) Net effect of all risks may not be the same due to diversification effect of risks.
c) Integrated risk implies coordinated approach across various risks. d) All these

221) Which of the following is correct regarding integrated risk?
a) Risks add to instability
b) Higher the risk more is instability
b) Risk adjusted returns on capital assumes importance in integrated risk management
d) All the above

222) The significance of integrated risk management is:
a) It integrates organizations internal and external business processes.
b) It applies standard risk terminology.
c) It facilitates reporting which helps in taking optional risk decisions.
d) All the above

223) The features of integrated approach for risk management are:
a) The process of supervising risk exposure gets centralized
b) Organization can decide how best to transfer risk
b) It is an ongoing business process d) All these

224) Which of the following is not an advantage of integrated risk management?
a) Day to day operational activities are not designed
b) It facilitates greater transparency for the investors.
c) Revenue and earnings are enhanced.
d) It controls downward risk potential.

225) The business challenges to manage integrated risk are:
a) Globalization of market.
b) Concern about business continuity and operational reliability
b) Fast technological changes d) All these

226) Which of the following are limitations in identifying the issues in integrated risk management? a) Cultural limitations
b) Business unit boundaries
c) (a) and (b) of the above d) None of these

227) What is the utility of integrated risk management for a bank?
a) It helps a bank to relate capital reserves more effectively.
b) It helps in quantifying the amount of capital required to absorb unexpected losses.
228) Risk Adjusted Rate of capital can be determined:
a) By dividing a unit's net income by its economic capital
b) It can be achieved by producing a profitability which is common across the Business units. c) Both (a) and (b) d) None of these
229) The Risk Adjusted Rate of capital can also be used to:
a) Evaluate pricing decisions
b) Product profitability
c) Differential between relationships that makes money for an institution and for those do not. d) All the above
230) The integrated Risk management process consists of:
a) Integration of Risk management strategy
b) Assigning Accountability to the concerned executive
c) Development of Risk management system d) All these
231) The process of integrated Risk limits will be helpful in:
a) Communication Risk appetite in the organization
b) Maintenance of overall exposure at acceptable level
c) Affecting delegation of authority d) All these
232) The impact of Basel II recommendations on integrated Risk management would be:
a) Significant reduction in capital requirement
b) Lower capital charges
c) Compliance with expected standards of identifying measuring and controlling Risk d) All the above
233) Which of the followings is not operational Risk?
a) Defaults b) External Events c) People and Systems
d) Inadequate internal processes
234) Which of the followings Basel II recommended for:
a) Cause Based Classification b) Event Based Classification
c) Effect Based Classification d) All these
235) The advantages of integrated Risk framework are:
a) It relates Capital and Reserves more effectively to their actual level of Risk exposure.
b) To evaluate pricing decisions
c) To evaluate product profitability d) To affect Risk Transfer decisions
236) Measurement of operational Risk for the purpose of capital allocation can be done through:
a) Basic Indicator Approach b) Standardised Approach
c) Advanced Measurement Approach d) Any of these
237) A general approach for estimating the level of operational Risk can be based on:
a) Estimated profitability of concurrence b) Estimated potential financial impact
c) Estimated impact of internal controls d) All these
238) A proper management of operational Risk would result in:
a) Lesser Risk Capital b) Competitive edge c) (a) and (b) both d) None of these
239) Given the following information, what would be level of operational Risk?
Probability of occurrence = 4, Potential financial impact = 4, Impact of internal controls = 0%
a) 4 b) 2 c) 0 d) 3
240) What is the Beta factor for corporate finance under standardized approach?
a) 15% b) 18% c) 12% d) 10%
241) Systematic Risk is the Risk of:
a) Failure of a Bank
b) Failure of entire Banking system
c) Failure of two Banks simultaneously
d) Where a group of Banks fail due to inter-relation effect.
242) The Central Bank Governors of G-10 countries participate in the Basel committee on Banking supervision. The members are
a) 13 b) 12 c) 11 d) 10
243) 1988 Capital Accord Framework accounted for:
a) Credit Risk b) Market Risk c) Defined capital component d) All these
244) The purpose of Back Testing is: a) To test a model b) To compare model results and actual performance, c) To record performance d) All these
245) Under Basel II Capital requirements under the accord is:
   a) The maximum capital that is required to be maintained
   b) Minimum capital to be maintained
   c) Both (a) and (b)  d) None of these
246) Which of the following impacts regulatory framework has on Risk management of Banks?
   a) It devices constraints and guidelines which promote Risk management practices
   b) The regulations stimulates development
   c) It also enhances the Risk management process of Banks  d) All these
247) Regulations on Risk management are also helpful in:
   a) Defining Risk in a better way
   b) Creating better methodologies for measuring Risk
   c) Both (a) and (b)  d) None of these
248) Which of the followings is the basic concept for imposing regulatory measures for Risk management?
   a) Capital adequacy principle and Risk based capital
   b) Bank's profitability  c) Bank's Business performance  d) All these
249) The regulatory measures on Risk management focus on:
   a) Promoting sound business and supervisory practices.
   b) Controlling and monitoring of systematic Risk
   c) Protecting interest of depositor's  d) All these
250) What is the Systemic Risk?
   a) It is the Risk of failure of whole Banking system.
   b) Individual Bank's of failure is one of the major sources of systematic Risk.
   c) This takes place when there are high inter-relations between Banks through mutual lending and borrowing  d) All these
251) A need for Regulations on Risk management is more important due to:
   a) The process of deregulation increased the competition which enhances more Risk. b) Competition also promoted globalization
   c) Risk controls are necessary for maintaining level playing field.  d) All these
252) The Regulations on Risk management at international level have been taken up by:
   a) World Bank  b) Basel Committee on Banking supervision
   c) Both (a) and (b)  d) None of these
253) Basel Committee on Banking supervision works under:
   a) ADB  b) Bank for International Settlement  c) World Bank
   d) International Finance Corporation
254) The modus operandies of Basic committee on Banking supervision are:
   a) It is instrumental in standardizing bank regulations across jurisdictions.
   b) It defines the role of regulations
   c) The committee meets 4 times in the year  d) All these
255) When was the Basel accord took place in post deregulation era:
   a) 1988  b) 1991  c) 1975  d) 1972
256) 1988 Basel Accord was enforced in:
   a) G-10 Countries in 1992  b) Asian Countries in 1991
   c) At International Level in 1988  d) none of these
257) Which of the following tier-1 of core capital consists?
   a) Equity  b) Disclosed Reserves  c) (a) and (b) both, d) None of these
258) Tier-2 or supplementary capital consists:
   a) Undisclosed Reserves  b) Assets Revaluation Reserve
   c) General Provisions  d) All these
259) Which of the followings is not included in tier-2 capital of a Bank?
   a) Reserves for bad and doubtful debts  b) Paid up capital
   e) Hybrid capital instrument  d) Subordinated Debt
260)" The amendment in 1988 Basel Accord in 1996 basically focused on:
   a) Explicit capital cushion for the price Risk to which Banks are exposed
   b) Tier-I capital  c) Both (a) and (b)  d) None of these
261) 1996 Basel Accord amendment was implemented in:
   a) 1996  b) 1998  c) 1997  d) 2000
262) The salient features of 1996 Basel Accord are:
a) To allow banks to use proprietary in house models for measurement of market Risk
b) Banks must compute value at Risk daily
c) Banks to use back testing
263) Which of the followings is not the feature of 1996 Basel Accord?
   a) Tier-3 capital by issuing short term subordinated debt
   b) Amendment to Tier-1 capital
c) To implement standardized approach using the Building Block Approach
d) Banks to segregate trading book and mark to market portfolios.
264) Which of the followings are basic principles of Basel Accord to control International supervisory coverage?
   a) No foreign Bank should escape supervision
   b) Supervision should be adequate
c) Both (a) and (b)
d) None of these
265) The 1988 Basel Accord was revised keeping in view the following objectives:
   a) To strengthen the international Banking system.
b) To adopt strong Risk management practices.
c) To maintain consistency in capital adequacy practices
   d) All these
266) The Revised Basel II Accord has been released on:
   a) 26.6.2004
   b) 1.12.2003
   c) 15.3.2002
   d) None of these
267) The main features of revised Basel II Accord are:
   a) More Risk sensitive capital requirement.
b) Risk treatment on securitization
   c) It provides different options for determining capital requirement for credit and operational Risk.
d) All these
268) Which of the followings is not true regarding revised Basel II Accord?
   a) Capital requirement under new Accord is the minimum
   b) Capital requirement includes liquidity Risk
   c) It promotes stronger Risk management practices
   d) All these
269) Minimum capital requirement is:
   a) Capital for Credit Risk
   b) Capital for Market Risk
   c) Capital for Operational Risk
   d) All these
270) Capital for credit Risk should be measured based on following Approaches:
   a) Standardized Approach
   b) Internal Rating Based Foundation Approach
   c) Internal Rating based Advanced Approach
   d) All these
271) Capital of market Risk be measured through:
   a) Maturity Method
   b) Duration Method
   c) Internal Models Method
   d) All these
272) Capital for operational Risk can be measured by adopting:
   a) Basic Indicator Approach
   b) Standardised Approach
   c) Advanced Measurements Approach
   d) All these
273) Supervisory Revenue process under Basel II Accord consists:
   a) Risk Assessment Evaluation
   b) Maintenance of minimum capital
   c) Ensuring soundness and integrity of Bank’s internal process to assess capital adequacy
   d) All the above
274) According to Basel II Revised Accord Market discipline focuses on:
   a) More disclosures
   b) Core disclosures and supplementary disclosure
   c) Half yearly disclosures
   d) All these
275) According to revised Basel II Accord, capital requirement will be determined:
   a) Minimum Capital Ratio (8%)
   b) Above (a) should be multiplied by credit Risk plus market Risk plus operational Risk.
   c) Only (a) of the above
   d) All these
276) Capital charge for credit Risk under standardized approach has the following features:
   a) It has fixed Risk weights corresponding to each supervisory category
   b) Banks to use external credit assessments to enhance Risk sensitivity.
   c) The Risk weights are differentiated based on external credit assessment
   d) All the above
277) The Standardised Approach to capital charge for credit Risk focuses on:
   a) Loans considered as past due should have a Risk weight of 150 per cent.
b) Uniform weight of 57 per cent on specified portfolios
278) The features of Internal Rating Based Approach are:
   a) It is innovative approach to measure capital requirement for credit Risk
   b) It complies the capital requirement of each exposure directly before computing the Risk weighted assets
   c) Capital charges are computed based on probability of default, loss given the default and exposure at default
   d) All these

279) The conditions under internal rating based approach are:
   a) It does not allow individual Bank to determine the elements for calculation of capital requirement.
   b) Capital charges are determined through the combinations of quantitative inputs
   c) It stresses on Banks internal assessment of key Risk drivers as primary inputs to the capital calculations
   d) All these

280) Under Internal Rating Based Approach the Risk weights are calculated on the following parameters:
   a) Probability of default by Borrower over a given time horizon.
   b) Loss exposure if default occurs.
   c) Remaining economic maturity of the exposure
   d) All these

281) According to revised Basel II Accord the supervisory review process should focus on:
   a) Sound Capital Assessment
   b) Proper Monitoring and Reporting
   c) Frequent Internal Control Review
   d) All these

282) The principle 2 of supervisory review process of Basel II Accord specifies on:
   a) The supervisors should ensure compliance of regulatory capital ratios.
   b) Supervisors should initiate appropriate action if the results are not satisfied.
   c) Both (a) and (b)
   d) None of these

283) Effective supervision can be achieved through:
   a) On site inspections
   b) Off site review
   c) Review of work done by external auditors
   d) All these

284) How many principles supervisory review process have under Basel II Accord?
   a) 2
   b) 3
   c) 4
   d) 8

285) The disclosure norms under market discipline should focus on:
   a) Disclosure will defined on legal authority and accounting standards of each country.
   b) Disclosure norms should match with internal financial reporting standards
   c) Both (a) and (b)
   d) None of these

286) Capital charge for credit Risk requires inputs under Advanced Internal Rating Based Approach. The inputs are provided by:
   a) Bank
   b) Supervisor
   c) Basel committee on Banking Supervision
   d) All these

287) Basel I was modified to link the Risk with capital because:
   a) Credit Risk assessment under Basel I was not risk sensitive
   b) It promotes financial decision making on the basis of regulatory constraints
   c) It did not recognize the role of credit Risk mitigant
   d) All these

288) The Basel II Accord is based on following pillars:
   a) Minimum Capital requirement
   b) Supervisory Review Process
   c) Market Discipline
   d) All these

289) Which of the followings is most relevant to Risk management process in Banks?
   a) Supervision of large Borrowed Accounts
   b) Asset Liability Management
   c) Management of non-performing Assets
   d) All these

ANSWER : TEST YOUR SELF – MARKET RISK , CREDIT RISK AND OPERATIONAL RISK