ALL THE VERY BEST FOR YOUR EXAMS

SAMPLE QUESTIONS FOR CAIIB RISK MANAGEMENT

Though we had taken enough care to go through the questions, we shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents. We advise everyone to update yourself with the latest information through RBI website and other authenticated sources. In case you find any incorrect/doubtful information, kindly update us also (along with the source link/reference for the correct information) as lot of questions were shared by many people.

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CAIIB – GENERAL INFORMATION

Consists of 5 papers :

I. Compulsory Paper

1. Advanced Bank Management
2. Bank Financial Management
3. Advanced Business & Financial Management
4. Banking Regulations and Business Laws

II. Elective Papers (Candidates to choose any one of their Choice)

1. Rural Banking
2. Human Resources Management
3. Information Technology & Digital Banking
4. Risk Management
5. Central Banking

- Only existing employees of banks who had cleared JAIIB can appear for CAIIB Exam.
- CAIIB exams are conducted in on-line mode only.
- The examination will be conducted normally twice a year in May / June and November / December on Sundays.
- The duration of the examination will be of 2 hours.
- **Examination Pattern** :
  (i) Question Paper will contain 100 objective type multiple choice questions for 100 marks including questions based on case studies/ case lets. The Institute may however vary the number of questions to be asked for a subject.
  (ii) There may be some numerical questions in some of the CAIIB subjects where, no options will be provided. These questions will not be in the MCQ pattern and the answer has to be keyed in by the candidate.
  (iii) The examination will be held in Online Mode only.
  (iv) There will be no negative marking for wrong answers.
  (v) Questions for the examination will be asked for:
    a. Knowledge testing
    b. Conceptual grasp
    c. Analytical/ logical exposition
    d. Problem solving
    e. Case analysis

- **Passing Criteria** :
  1. Minimum marks for pass in the subject is 50 out of 100.
  2. Candidates securing at least 45 marks in each subject with an aggregate of 50% marks in all subjects of examination in a single attempt will also be declared as having completed the Examination.
  3. Candidates will be allowed to retain credits for the subject they have passed in an attempt till the expiry of the time limit for passing the examination.

  Note : A candidate will be given 5 attempts for completion of exam (CAIIB) but, within a maximum period of three years, whichever is earlier, from the time he/she registers for the exam. These 5 attempts need not be consecutive.

- **"Class of Pass" Criteria :**
  - **First Class :** 60% or more marks in aggregate and pass in all the subjects in the FIRST PHYSICAL ATTEMPT.
  - **First Class with Distinction :** 70% or more marks in aggregate and 60% or more marks in each subject in the FIRST PHYSICAL ATTEMPT.
  - Candidates who have been granted exemption in the subject/s will be given **"Pass Class"** only.

- **Cut-off Date of Guidelines /Important Developments for Examinations** :
  - In respect of the exams to be conducted by the Institute for the Period from February to July of a calendar year, instructions/guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December will only be considered for the purpose of inclusion in the question papers.
  - In respect of the exams to be conducted by the Institute for the period from August to January of a calendar year, instructions/guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June will only be considered for the purpose of inclusion in the question papers.

- **Exam Fees**

Description	Fees*
First attempt fee	5,000
Second attempt fee	1,300
Third attempt fee	1,300
Fourth attempt fee	1,300
Fifth attempt fee	1,300

* Plus Convenience charges and Taxes as applicable.

Please Note: Candidates are required to Register for every attempt separately

Risk Management

Fixed Assets - 600 Crore
Govt. Securities - 6000 crore

Standard Assets
Retail - 4000 crore
HL - 3000 crore
Other loans - 12000 cr

Sub-Standard Assets
Secured - 600 crore
Unsecured - 200 crore

Doubtful (DAI) - 1000 crore

1. What is the amount of Risk Weighted Assets for Standard Assets (Retail)?

a. 1500 crore
b. 3000 crore
c. 12000 crore
d. 16500 crore

2. What is the amount of Risk Weighted Assets for Standard Assets (HL)?

a. 1500 crore
b. 3000 crore
c. 12000 crore
d. 16500 crore

3. What is the amount of Risk Weighted Assets for Standard Assets (Other loans)?

a. 1500 crore
b. 3000 crore
c. 12000 crore
d. 16500 crore

4. What is the amount of Risk Weighted Assets for Standard Assets?

a. 1500 crore
b. 3000 crore
c. 12000 crore
d. 16500 crore

5. What is the amount of Risk Weighted Assets for Govt. Securities?

a. 0 crore
b. 200 crore
c. 900 crore
d. 1000 crore

6. What is the amount of Risk Weighted Assets for SS Secured?

a. 0 crore
b. 200 crore
c. 900 crore
d. 1000 crore

7. What is the amount of Risk Weighted Assets for SS Unsecured?

a. 0 crore
b. 200 crore
c. 900 crore
d. 1000 crore

8. What is the amount of Risk Weighted Assets for Doubtful D1?

a. 0 crore
b. 200 crore
c. 900 crore
d. 1000 crore

9. What is the amount of Total Risk Weighted Assets?

a. 10500 crore
b. 12000 crore
c. 16500 crore
d. 18600 crore

Solution:
1. b
RWA for Standard Assets (Retail) = 4000*75/100 = 3000 crore

2. a
RWA for Standard Assets (HL) = 3000*50/100 = 1500 crore

3. c
RWA for Standard Assets (Other loans) = 12000*100/100 = 12000 crore

4. d
RWA for Standard Assets = 3000 + 1500 + 12000 = 16500 crore

5. a
RWA for Gsec = 5000*0/100 = 0

6. c
RWA for SS Secured = 600*150/100 = 900 crore

7. b
RWA for SS Unsecured = 200*100/100 = 200 crore

8. d
RWA for Doubtful D1 = 1000*100/100 = 1000 crore

9. d
Total RWAs = 3000 + 1500 + 12000 + 900 + 200 + 1000 = 18600 crore
....

LC within Retail portfolio (AAA rated securities) - 3000 crore
Standby LC (As Financial Guarantee) (A rated Co.) - 2000 crore
Standby LC – particular transaction (AA rated Co) - 1000 crore
Performance Bonds & Bid bonds (Unrated Co.) - 2000 crore
Financial Guarantees (AA rated Co.) - 1000 crore
Confirmed LC for Imports (AAA rated Co.) - 1000 crore

1. What is the amount of Risk Weighted Assets for LC within Retail portfolio (AAA rated securities)?

a. 120 crore
b. 150 crore
c. 300 crore
d. 1000 crore

2. What is the amount of Risk Weighted Assets for Standby LC (As Financial Guarantee) (A rated Co.)?

a. 120 crore
b. 150 crore
c. 300 crore
d. 1000 crore

3. What is the amount of Risk Weighted Assets for Standby LC – particular transaction (AA rated Co)?

a. 120 crore
b. 150 crore

c. 300 crore
d. 1000 crore

4. What is the amount of Risk Weighted Assets for Performance Bonds & Bid bonds (Unrated Co.)?

a. 120 crore
b. 150 crore
c. 300 crore
d. 1000 crore

5. What is the amount of Risk Weighted Assets for Financial Guarantees (AA rated Co.)?

a. 120 crore
b. 150 crore
c. 300 crore
d. 1000 crore

6. What is the amount of Risk Weighted Assets for Confirmed LC for Imports (AAA rated Co.)?

a. 40 crore
b. 150 crore
c. 300 crore
d. 2610 crore

7. What is the amount of Total Risk Weighted Assets?

a. 40 crore
b. 150 crore
c. 300 crore
d. 2610 crore

8. What is the amount of Capital Required?

a. 40 crore
b. 150 crore
c. 300 crore
d. 2610 crore

Solution:

1. a
CCF for LC Retail Portfolio (AAA rated) = 20%
So, Adjusted Exposure = 3000*20% = 600 crore
So, RWA = 600 * 20% = 120 crore

2. d
CCF for Standby LC (As Financial Guarantee) (A rated Co.) = 100%
So, Adjusted Exposure = 2000*100% = 2000 crore
So, RWA = 2000 * 50% = 1000 crore

3. b
CCF for Standby LC–particular transaction (AA rated) = 50%
So, Adjusted Exposure = 1000*50% = 500 crore
So, RWA = 500 * 30% = 150 crore

4. d
CCF for Performance Bonds & Bid bonds (Unrated) = 50%
So, Adjusted Exposure = 2000*50% = 1000 crore
So, RWA = 1000 * 100% = 1000 crore

5. c
CCF for Financial Guarantees (AA rated) = 100%
So, Adjusted Exposure = 1000*100% = 1000 crore
So, RWA = 1000 * 30% = 300 crore

6. a
CCF for Confirmed LC for Imports (AAA rated Co.) = 20%
So, Adjusted Exposure = 1000*20% = 200 crore
So, RWA = 200 * 20% = 40 crore

7. d
Total RWAs = 120 + 1000 + 150 + 1000 + 300 + 40 = 2610 crore

8. c
Capital Required = 2610 * 11.5 % = 300 crore
....

The features of Zero Risk are ...... (i) It does not have any uncertainty with it, (ii) There is no variation in net cash flow, (iii) Return on such investment would be lower

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

ABC bank has the following exposure to Corporate sector secured by financial assets.

Party - A Ltd
Amount in Rs - 20.00 Cr
Maturity of exposure & collateral - 2
Collateral - Mutual Fund (AA)
Value of collateral - 20.00 Cr
Exposure Rating - AA

Party - B Ltd
Amount in Rs - 40.00 Cr
Maturity of exposure & collateral - 3
Collateral - Sovereign Bond
Value of collateral - 40.00 Cr
Exposure Rating - BBB

Party - C Ltd
Amount in Rs - 60.00 Cr
Maturity of exposure & collateral - 6
Collateral - Gold
Value of collateral - 62.00 Cr
Exposure Rating - A

1. Find out the credit risk weighted asset for A Ltd.

a. 0.18 Cr
b. 0.24 Cr
c. 0.80 Cr
d. 2.65 Cr

2. Find out the credit risk weighted asset for B Ltd.

a. 0.18 Cr
b. 0.24 Cr
c. 0.80 Cr
d. 2.65 Cr

3. Find out the credit risk weighted asset for C Ltd.

a. 0.18 Cr
b. 0.24 Cr
c. 0.80 Cr
d. 2.65 Cr

Answer:

Applying the credit risk mitigation formula:
E* = max {0, [E x (1 + He) - C x (1 - Hc - Hfx)]}
where:
E* = the exposure value after mitigation
E = current value of the exposure for which the collateral qualifies as a risk Mitigant
He = haircut appropriate to the exposure
C = the current value of the collateral received
Hc = haircut appropriate to the collateral
Hfx = haircut appropriate for currency mismatch between the collateral and exposure

1. b
Party - A Ltd
Exposure - 20.00
Rating of Exposure - AA
Risk Weight - 30%
Hair cut for exposure - 0
Collateral value - 30.00
Collateral - Mutual Fund(AA)
Maturity of collateral - 2
Hair cut for collateral - 4%

E* = max {0, [20 x (1 + 0) - 20 x (1 – 0.04 - 0)]}
= max of 0 or [0.80]
Means the collateral value after mitigation = 20 - 0.80 = 19.20
So the net exposure = 20 - 19.20 = 0.80
RWA = 0.80 x Risk weight of exposure which is 30%
= 0.24 Cr

2. c
Party - B Ltd
Exposure - 40.00
Rating of Exposure - BBB
Risk Weight - 100%
Hair cut for exposure - 0
Collateral value - 40.00
Collateral - Sovereign Bond
Maturity of collateral - 3
Hair cut for collateral - 2%

E* = max {0, [40 x (1 + 0) - 40 x (1 – 0.02 - 0)]}
= max of 0 or [0.80]
Means the collateral value after mitigation = 40 - 0.80 = 39.20

So the net exposure = 40 - 39.20 = 0.80
RWA = 0.80 x Risk weight of exposure which is 100%
= 0.80 Cr

3. d
Party - C Ltd
Exposure - 60.00
Rating of Exposure - A
Risk Weight - 50%
Hair cut for exposure - 0
Collateral value - 62.00
Collateral - Gold
Maturity of collateral - 6
Hair cut for collateral - 15%

E* = max {0, [60 x (1 + 0) - 62 x (1 – 0.15 - 0)]}
= max of 0 or [7.30]
Means the collateral value after mitigation = 62 - 7.30 = 54.70
So the net exposure = 60 - 54.70 = 5.30
RWA = 5.30 x Risk weight of exposure which is 50%
= 2.65 Cr
....

Which of the following may be adversely affected due to Trading Book Risk? (i) Bank's Earnings, (ii) Net Interest Margin, (iii) Bank's Capital

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

What is Trading Liquidity? (i) It is ability to liquidate positions without affecting market prices, (ii) Without attracting the attention of other market participants

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d
....

ABC Bank has a Repo transaction. The details of it has been given below.

Type of the Security - GOI security
Residual Maturity - 5 years
Coupon - 6%
Current Market Value - Rs.3000
Cash borrowed - Rs.2000
Modified Duration of the security - 3.6 years
Assumed frequency of margining - Daily
Haircut for security (adjusted for minimum holding period) - 1.4 %
Haircut on cash - Zero
Minimum holding period - 5 business days
Change in yield for computing the capital charge for general market risk - 0.7 % p.a.

1. Calculate Capital Charge for CCR

a. 0
b. 23.97
c. 75.6
d. 99.57

2. Calculate Capital Charge for credit risk

a. 0
b. 23.97
c. 75.6
d. 99.57

3. Calculate Capital Charge for market (specific) risk

a. 0
b. 23.97
c. 75.6
d. 99.57

4. Calculate Capital Charge for market (General) risk

a. 0
b. 23.97
c. 75.6
d. 99.57

5. Calculate Total capital required

a. 0
b. 23.97
c. 75.6
d. 99.57

Solution :

1. b
Capital Charge for CCR
1. Exposure - MV of the security = 3000.00
2. CCF for Exposure - 100 %
3. On-Balance Sheet Credit Equivalent - 3000 * 100 % = 3000.00
4. Haircut - 1.4 %
5. Exposure adjusted for haircut - 3000 * 1.014 = 3042.00
6. Collateral for the security lent - Cash = 2000.00
7. Haircut for exposure - 0 %
8. Collateral adjusted for haircut - 2000 * 1.00 = 2000.00
9. Net Exposure (5- 8) - 3042 - 2000 = 1042.00
10. Risk weight (for a Scheduled CRAR complaint bank) - 20 %
11. Risk weighted assets for CCR (9 x 10) - 1042 * 20 % = 208.4
12. Capital Charge for CCR (11 x 11.5 %) - 208.4 * 0.115 = 23.97

2. a
Capital for credit risk (if the security is held under HTM) = Zero (Being Govt. security)

3. a
Capital for market (specific) risk (if the security is held under AFS/HFT) = Zero (Being Govt. security)

4. c
Capital for market (General) risk = (Modified duration * Assumed yield change (%) * market value of security)
= 3.6 * 0.7% * 3000
= 75.6

5. d
Total capital required = (for CCR + credit risk + specific risk + general market risk)
= 23.97 + 0 + 0 + 75.6
= 99.57
……………………………………

Answer the following questions, based on the below given information

Tier I capital - 2,500 Crs
Tier II capital - 2,000 Crs
RWAs for credit risk other than retail assets (including 2,000 Crs of commercial real estate) - 35,500 Crs
Exposure on retail assets - 8,700 Crs
Total eligible financial collaterals available for retail assets - 1,200 Crs
Capital charge for general market risk net position - 450 Crs
Capital charge for specific risk - 190 Crs
Vertical adjustment - 15 Crs
Horizontal adjustment - 10 Crs
Total capital charge for equities - 150 Crs
Total capital charge for options - 70 Crs
Gross income for the previous year - 495 Crs
Gross income for the year before previous year - 450 Crs
Gross income for 2nd year before previous year - 390 Crs

1. The bank compares its tier I CRAR with minimum required tier CRAR and finds ......

a. Its tier I CRAR is more and exceeds requirement by 675 Crs
b. Its tier I CRAR is more and exceeds requirement by 355 Crs
c. Its tier I CRAR falls short by 854 Crs
d. None of these

Ans - c

2. The CRAR of the bank is ......

a. 9.35%
b. 8.05%
c. 10.22%
d. None of these

Ans - b

3. Total risk weighted assets for market risk is ......

a. 7500 Crs
b. 8000 Crs
c. 8500 Crs
d. None of these

Ans - d

4. The capital required (rounded off) for credit risk at minimum required rate as per RBI is ......

a. 3500 Crs
b. 3700 Crs
c. 3900 Crs
d. 4100 Crs

Ans - b

5. Total risk weighted assets for operational risk is ......

a. 4894 Crs
b. 4944 Crs
c. 4984 Crs
d. 5024 Crs

Ans - b
....

The features of Earnings of market portfolio are ...... (i) Profit and loss arising from transactions, (ii) The profit and loss between two dates is the variation of the market value, (iii) Any decline in value results in a market loss

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

What is Risk Adjusted Returns on investment? (i) It is the process where a Risk in a Business or investment, is netted against the returns from it, (ii) Higher the Risk Adjusted Return on capital higher is the reward for investors, (iii) The investors would have more performance for such investments

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

A bank borrows 50 crs from call money market on a daily basis to fund the following assets.

a. A 2 month loan for 10 Crs to one AAA rated client (i.e. zero default probability over one year) at a rate of interest 2.50% over call money rate to be reset on a daily basis.
b. 5 year government of India bonds with YTM of 7.10% having market value of 40 Crs, with a plan to sell these bonds within 20 days.
Answer the following questions based on the information given above.

1. The bank may see variation in its net interest income over 10 days in respect of asset 'a' because the transaction is associated with ......

a. Market risk
b. Gap risk
c. Operational risk
d. Funding risk

Ans - b
....

2. The asset acquired under item 'b' above would have the following risk ......

a. Market risk
b. Gap risk
c. Operational risk
d. Funding risk

Ans - a
....

3. The bond could not be sold within 10 days due to over sight and as a result the bank had to incur loss. This loss would be the result of ......

a. Market risk
b. Gap risk
c. Operational risk
d. Funding risk

Ans - c
....

4. The bank may face liquidity problem because the entire transaction is associated with ......

a. Market risk
b. Gap risk

c. Operational risk
d. Funding risk

Ans - d

....

5. There is a sudden rise in interest rates. The bank would ......

a. Gain due to asset 'a'
b. Suffer losses due to asset 'a'
c. Gain due to asset 'b'
d. Suffer losses due to asset 'b'

Ans - d

....

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

Ans - a

....

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

Ans - b

....

A foreign exchange dealer forgets to square the over bought position in a foreign currency. It is a ......

a. foreign exchange risk
b. settlement risk
c. liquidity risk
d. operational risk

Ans - d

A bank's branch plans to extend a loan of 1 Cr for a period of one year at a rate of interest 2% over base rate, base rate being 9%. The loan is to be repaid in equal quarterly instalments. Funding of the loan is to be done by 5 years deposit, interest rate on it being 8%. The branch is analyzing the risks associated with the transaction. In doing so they have not taken into account CRR/SLR requirements. The borrower is rated AAA, which has zero default probability over one year.

Answer the following questions based on the information given above.

1. The loan may get repaid within 3 months of disbursement. This would be ......

a. Market risk
b. Re-pricing risk
c. Embedded option risk
d. Funding risk

Ans - c
....

2. 5 months after the transaction, interest rate in the market hardens and the borrowing cost goes up by 2%. The bank also revises its base rate upwards by 1%. As a result the branch would be affected ......

a. Favourably
b. Unfavourably
c. Neither favourably nor unfavourably
d. Can't be determined

Ans - a
....

3. 9 months after the transaction the borrower's credit rating is revised and it becomes AA-. The branch would term this as ......

a. Market risk
b. Re-pricing risk
c. Embedded option risk
d. Down-gradation risk

Ans - d
....

4. The branch may see variation in its net interest income in one year because the transaction is associated with ......

a. Market risk

b. Re-pricing risk
c. Embedded option risk
d. Funding risk

Ans - b

....

5. The branch may face liquidity problem over one year horizon because the transaction is associated with ......

a. Market risk
b. Re-pricing risk
c. Embedded option risk
d. Funding risk

Ans - c

....

Risk that is associated with failure of internal processes of a bank or business organization ......

a. settlement risk
b. procedural risk
c. operational risk
d. credit risk

Ans - c

....

Strategic Risk can be defined ...... (i) A Risk arising from adverse business decisions, (ii) It is a function of compatibility of organizations strategic goals, (iii) This is measured from resources deployed to reach goals and quality of implementation

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

What are two methods by which Credit Risk can be measured by?

a. Credit Rating
b. Quantifying of Risk through estimated loan losses

c. Both a and b
d. Neither a nor b

Ans - c

....

The extent of cumulative cash flow mismatches could be arrived as under ......

a. Taking a conservative view of marketability of liquid Assets
b. Provision for discount to cover price volatility
c. Expected outflows as a result of draw down of commitments
d. All the above

Ans - d

....

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.

Ans - b

....

Strategic Risk can be classified as ......

a. Operational Risk
b. Interest Rate Risk
c. Forex Risk
d. None of these

Ans - d

....

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

Ans – b

Answer the following questions, based on the below given information

1st year (Rs. In crores)
Net profits - 600.00
Provisions - 800.00
Staff expenses - 900.00
Other operating expenses - 1000.00
Other income - 600.00

2nd year (Rs. In crores)
Net profits - 700.00
Provisions - 800.00
Staff expenses - 1000.00
Other operating expenses - 1200.00
Other income - 800.00

1. What is the amount of capital charge for operational risk, on the basis of 1st year results alone as per Basic indicator approach?

a. 495 cr
b. 525 cr
c. 555 cr
d. 615 cr

Ans – a

2. What is the amount of capital charge for operational risk, on the basis of 2rd year results alone as per Basic indicator approach?

a. 495 cr
b. 525 cr
c. 555 cr
d. 615 cr

Ans – c

3. What is the amount of capital charge for operational risk, on the basis of 1st and 2nd year results as per Basic indicator approach?

a. 495 cr
b. 525 cr
c. 555 cr
d. 615 cr

Ans – b

4. What is the amount of risk weighted assets for operational risks in India as per Basel III recommendations, on the basis of 1st year results alone?

a. 3913 cr
b. 4034 cr
c. 4565 cr
d. 4826 cr

Ans – b

5. What is the amount of risk weighted assets for operational risks in India as per Basel III recommendations, on the basis of 2nd year results alone?

a. 3913 cr
b. 4034 cr
c. 4565 cr
d. 4826 cr

Ans – d

6. What is the amount of risk weighted assets for operational risks in India as per Basel III recommendations, on the basis of 1st year and 2nd year results?

a. 3913 cr
b. 4034 cr
c. 4565 cr
d. 4826 cr

Ans - c

Explanations:

1. Capital charge = Gross income X 15%
Gross income 1st year = net profit + provisions + staff expenses + other operating expenses.
= 600 + 800 + 900 + 1000
= 3300
Capital charge = 3300 x 15% = 495 cr

2. Capital charge = Gross income X 15%
Gross income 2nd year = net profit+ provisions + staff expenses + other operating expenses
= 700 + 800 + 1000 + 1200 = 3700 cr
Capital Charge = 3700 x 15% = 555cr

3. Capital charge = Gross income X l5%.
Gross income for 1st year = 3300 cr
Gross income for 2nd year = 3700 cr
Average gross income = (3300 + 3700)/2
= 7000/2
= 3500 cr
Capital charge = 3500 x 15% = 525 cr

4. Capital charge / 11.5 % = 495 / 11.5 % = Rs. 4304 cr

5. Capital charge / 11.5 % = 555 / 11.5 % = Rs. 4826 cr

6. Capital charge / 11.5 % = 525 / 11.5 % = Rs. 4565 cr
....

What is Reinvestment Risk? (i) When Interest Rate at which the future cash flows can be reinvested are uncertain it is called Reinvestment Risk, (ii) Any mismatch in cash flows will expose a Bank, (iii) Since the market interest rates move in different directions, it will have variation in net interest income

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The features of Net Interest position Risk are ...... (i) When there are more earning Assets than paying liabilities, interest rate may arise if market interest rates adjust downwards, (ii) It may result in reduction in Net Interest Income, (iii) It will have an impact on the economic value of Bank's Assets

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - a

A bank has failed to meet its obligation on account of a payment on due date due to its incapacity to pay. What kind of risk it is?

a. credit risk
b. liquidity risk
c. settlement risk
d. payment risk

Ans - c

The market parameters which parameters which derive market value are ...... (i) Demand Supply Position, (ii) Interest Rate, (iii) Inflation

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

Which of the following is relevant to the measurement of sensitivity? (i) This indicates the degree of risk associated with the portfolio against the changes in interest rate, (ii) It does not consider the impact of other parameters, (iii) Sensitivity is more appropriate measurement to measure impact of interest rate changes

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

The instrument(s) that does not qualify for upper Tier II capital is/are ......

a. PCPS
b. RNCPS

c. PNCPS
d. All of these

Ans - c
....

Eligible portion of subordinated dehs that qualify for Tier II may not exceed ......

a. 50% of total Tier II capital
b. I 00% of Tier I capital
c. 50% of Tier I capital
d. 100% of upper Tier II capital

Ans - c
....

Securitized instruments originated by banks and held by them to the extent of 5% would require capital allocation by way of ......

a. 100% deduction from Tier I capital
b. 100% deduction from Tier II capital
c. 50% deduction from Tier I capital and 50% deduction from Tier II capital
d. 9% of risk weighted asset equivalent of the holding

Ans - c
....

Under SRP ......

1. Supervisors should review and evaluate banks ICAAP
2. Banks must have capital for projected growth
3. Supervisors may advise banks to hold capital in excess of regulatory capital

a. 1 and 2 are true
b. 2 and 3 are true
c. 3 and 1 are true
d. All are true

Ans - c
....

PNCPS are ......

a. In the nature of capital and qualifies for Tier II capital

b. Debts and qualify for Tier I capital
c. Debts and qualifies for Tier II capital
d. In the nature of capital and qualifies for Tier I capital

Ans - d
....

Revaluation reserves ......

a. Qualify for Tier I capital but limited to 55% of it
b. Qualify for Tier II capital but limited to 55% of it
c. Qualify for Tier I capital but limited to 45% of it
d. Qualify for. Tier II capital but limited to 45% of it

Ans - d
....

Risk aggregation in ICAAP implies ......

a. Sum total of risks measured across various risks
b. Sum total of risks measured in terms of pillar I guidelines
c. Sum total of risks measured after accounting for risk diversification
d. Assessment of bank's internal capital, capital adequacy assessment and strategy

Ans - c
....

Which of the following steps are involved in calculating price volatility? (i) It is multiplication of yield volatility and Basis Point Value, (ii) The above (a. is then multiplied by the yield, (iii) The above (ii) is divided by price

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Risk associated with changes in the credit profile of the borrowers and counter parties, is called ......

a. credit risk
b. market risk
c. counter-party risk

d. liquidity risk

Ans - a

....

Risk associated with a portfolio is always less than the weighted average of risks of individual items in the portfolio due to ...... (i) Diversification of risks, (ii) The fact that all accounts in a portfolio will not behave in unidirectional manner, (iii) The fact that risks in all the accounts in a portfolio will not materialize simultaneously

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Aggregated risk of the organizations as a whole is called ......

a. Transaction risk
b. Portfolio risk
c. Total risk
d. None of these

Ans - b

....

The operational Risk management policy should cover the following ...... (i) Operational Risk management structure, (ii) Role and Responsibilities, (iii) Operational Risk management processes

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Which of the following Business lines, Beta Factor is 18%? (i) Corporate Finance, (ii) Trading and Sales, (iii) Payments and Settlement

a. Only (i) and (ii)
b. Only (i) and (iii)

c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

The customer service in a bank branch, has been disrupted for 2 hours, due to failure of the central server. What type of risk it is?

a. reputation risk
b. systemic risk
c. operational risk
d. settlement risk

Ans - c

....

What are the features of Price Risk? (i) When Assets are sold before their maturities it may result in Price Risk, (ii) The Price Risk is closely associated with the Banks Trading Volume, (iii) Bank may create such Trading investments out of short term movements in interest rates

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Which of the following statements is/are correct? (i) The Bond prices and yields are directly related, (ii) Market Risk may apply for Pricing Risk for the Assets held in the Trading Book, (iii) The Market Risk may also apply to foreign currency Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

What kind of risk on settlements is covered by 'Herstatt Risk' for which BCBS was formed?

a. Exchange rate risk

b. Time difference risk
c. Interest rate risk
d. None

Ans - b
....

Which of the following is not one of the 3 main pillars of Basel III?

a. Capital for market risks
b. Supervisory review process
c. Market discipline
d. Minimum capital requirements

Ans - a
....

A financial contract that Credit spread option provides protection against?

a. Down gradation Risk
b. upper side risk
c. Both a and b
d. None of these

Ans - a
....

A limit can be fixed for the following for managing liquidity Risk ......

a. Extent of dependence on individual customer
b. Flexible limits on average maturity of different liabilities
c. Minimum liquidity provision
d. Any or all of the above

Ans - d
....

For every Rs.100 in assets, a bank has Rs.40 in interest rate sensitive assets, and the other Rs.60 in non-interest rate sensitive assets. The same bank has Rs.50 for every Rs.100 in liabilities in interest sensitive liabilities, the other Rs.50 are in liabilities that are not interest rate sensitive. If the interest rate on assets increases from 5 to 6 percent, and the interest rate on liabilities increases from 3 to 4, percent the impact on the bank's profits per Rs.100 of assets will be ......

a. An increase of Rs.0.10

b. A decrease of Rs.0.10
c. A reduction of Rs.1.00
d. Constant since the interest rates on assets and liabilities increased by the same amount

Ans - b

....

A bank that makes most of its long term loans at adjustable interest rates is ......

a. Reducing both interest rate and credit risk
b. Increasing credit risk and reducing interest rate risk
c. Reducing credit risk and increasing interest rate risk
d. Increasing both interest rate and credit risk

Ans - b

....

From the following one of the event is a credit event for credit default swap.

a. restructuring of advance
b. payment of advance in full
c. take over by other bank
d. none of these

Ans - a

....

The settlement of CDS in which protection by a delivers wants of reference entity is called as ......

a. cash settlement
b. credit settlement
c. default settlement
d. physical settlement

Ans - d

....

A dealer has a $200 million open position. He finds that his VaR for a one day period with a one percent probability is $1000,000. Which of the following is true?

a. This means that the dealer can expect to lose at least $1000,000 in any given day about one percent of the time, or in other words, 2.5 times in a year (assuming 250 trading days)
b. This means that the dealer can expect to lose at least $1000,000 in any given day about 99 percent of the time, or in other words, 247.5 times in a year (assuming 250 trading days)

c. This means that the dealer can expect to lose at least $2,000,000 in any given day about one percent of the time, or in other words, 2.5 times in a year (assuming 250 trading days)
d. This means that the dealer can expect to lose at least $ 4000,000 in any given day about one percent of the time, or in other words, 2.5 times in a year (assuming 250 trading days)

Ans - a

....

On occurrence of a credit event the protection seller shall pay difference between nominal value of the reference obligation and its market value at the time of credit event is called as

a. cash settlement
b. credit settlement
c. default settlement
d. physical settlement

Ans - a

....

Portfolio Risk is less than weighted average of individual Risks in the portfolio due to ...... (i) Diversification effect, (ii) Individual Risk do not materialize in an unidirectional manner

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d

....

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?

a. Market Risk
b. Operational Risk
c. Market Liquidation Risk
d. Credit Risk

Ans - b

....

Balance sheet of a bank provides the following information:

Fixed Assets - 1000cr
Investment in central Govt Securities - Rs 10000cr

In standard loan accounts
Housing Loans - RS 6000cr (Secured, below Rs 10 lac)
the Retail loan - Rs 4000cr
Other loans - Rs 8000cr

sub-standard secured loans - Rs 1000cr
sub-standard unsecured loans - Rs 500cr
Doubtful loans (D-1, secured) - Rs 800cr
Doubtful loans (D-1, unsecured) - Rs 600cr
Doubtful loans (D-2, secured) - Rs 500cr
Doubtful loans (D-2, unsecured) - Rs 1000cr
Doubtful loans (D-3, secured) - Rs 1000cr
Doubtful loans (D-3, unsecured) - Rs 600cr
Loss Assets - 50cr and
other assets - Rs 500cr

Answer the following questions, based on this information, by using standard Approach for credit risk.

1. What is the amount of RWAs for investment in govt securities?

a. Rs 5000cr
b. Rs 3500cr
c. Rs 2500cr
d. Nil

2. What is the amount of RWAs for sub-standard secured accounts?

a. Rs 500cr
b. Rs 7500cr
c. Rs 1000cr
d. Rs 1500cr

3. What is the amount of RWAs for sub-standard unsecured accounts?

a. Rs 500cr
b. Rs 7500cr
c. Rs 1000cr
d. Rs 1500cr

4. What is the amount of RWAs for doubtful (D-1, Secured) accounts?

a. Rs 300cr
b. Rs 500cr
c. Rs 800cr
d. Rs 900cr

5. What is the amount of RWAs for doubtful (D-1, unSecured) accounts?

a. Rs 300cr
b. Rs 500cr
c. Rs 800cr
d. Rs 900cr

6. What is the amount of RWAs for doubtful (D-2, Secured) accounts?

a. Rs 300cr
b. Rs 500cr
c. Rs 800cr
d. Rs 900cr

7. What is the amount of RWAs for doubtful (D-2, unSecured) accounts?

a. Rs 300cr
b. Rs 500cr
c. Rs 800cr
d. Rs 900cr

8. What is the amount of RWAs for doubtful (D-3, Secured) accounts?

a. Rs 300cr
b. Rs 500cr
c. Rs 800cr
d. Rs 900cr

9. What is the amount of RWAs for doubtful (D-3, Secured) accounts?

a. Rs 300cr
b. Rs 500cr
c. Rs 800cr
d. Rs 900cr

10. What is the amount of RWAs for retail loans?

a. 3000cr
b. 4000cr
c. 5000cr
d. 6000cr

11. What is the amount of RWAs for housing loans?

a. 3000cr
b. 4000cr
c. 5000cr
d. 6000cr

Solution :

1. d
RW against Govt Securities = 0 %

So, RWA
= 10000 x 0%
= 0 Cr

2. d
If the provision is less than 20 %, then RW is 150%
If the provision is 20-50 %, then RW is 100%
If the provision is more than 50 %, then RW is 50%

Provision in Sub-Standard Secured - 15 %, and so, RW = 150 %

So, RWA
= 1000 x 150 %
= 1500 Cr

3. a
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in Sub-Standard Un-Secured - 25 %, and so, RW = 100 %

So, RWA
= 500 x 100 %
= 500 Cr

4. c
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-1, Secured) - 25 %, and so, RW = 100 %

So, RWA
= 800 x 100 %
= 800 Cr

5. a
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-1, unsecured) - 100 %, and so, RW = 50 %

So, RWA
= 600 x 50 %
= 300 Cr

6. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-2, Secured) - 40 %, and so, RW = 100 %

So, RWA
= 500 x 100 %
= 500 Cr

7. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-2, unsecured) - 100 %, and so, RW = 50 %

So, RWA
= 1000 x 50 %
= 500 Cr

8. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-3, Secured) - 100 %, and so, RW = 50 %
So, RWA
= 1000 x 50 %
= 500 Cr

9. a
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-3, unsecured) - 100 %, and so, RW = 50 %
So, RWA
= 600 x 50 %
= 300 Cr

10. a
RW on retail loans = 75 %
So, RWA
= 4000 x 75%
= 3000 Cr

11. a
RW on housing loans = 50 %
So, RWA
= 6000 x 50%
= 3000 Cr
....

Employment practices and workplace safety is classified as a following type of operational risk?

a. Event Based
b. Cause-Based
c. Effect Based
d. There is no correct option

Ans - a
....

Balance sheet of a bank provides the following information:

Total advances Rs 50000cr, Gross NPA 10% and Net NPA 3%, Based on this information, answer the following questions?

1. What is the amount of gross NPA?

a. Rs 4000cr
b. Rs 4500cr
c. Rs 5000cr
d. Rs 5500cr

2. What is the amount of net NPA?

a. Rs 1000cr
b. RS 1200cr
c. Rs 1500cr
d. Rs 1800cr

3. What is the amount of provision for standard loans, if all the standard loan account represent general advance?

a. Rs 150cr
b. Rs 160cr
c. Rs 180cr
d. Rs 200cr

4. What is the provision on NPA accounts?

a. Rs 3000cr
b. RS 3500cr
c. Rs 4500cr
d. Rs 5000cr

5. What is the total amount of provisions on total advances, including the standard accounts?

a. Rs 3500cr
b. Rs 3680cr
c. Rs 4000cr
d. Rs 4200cr

6. What is the minimum amount of provision to be maintained to meet the PCR of 70%?

a. Rs 3500cr

b. Rs 3680cr
c. Rs 4000cr
d. Rs 4200cr

7. What is the amount of provision for standard loans, if all the standard loan account represent direct advances to agricultural?

a. Rs 90cr
b. Rs 112.5cr
c. Rs 135cr
d. Rs 180cr

8. What is the amount of provision for standard loans, if all the standard loan account represent advances to SMEs sectors?

a. Rs 90cr
b. Rs 112.5cr
c. Rs 135cr
d. Rs 180cr

9. What is the amount of provision for standard loans, if all the standard loan account represent advances to CRE sectors?

a. Rs 112.5cr
b. Rs 180cr
c. Rs 337.5cr
d. Rs 450cr

10. What is the amount of provision for standard loans, if all the standard loan account represent advances to CRE-RH sectors?

a. Rs 112.5cr
b. Rs 180cr
c. Rs 337.5cr
d. Rs 450cr

Solution :

1. c
Gross NPA
= 50000 x 10 %
= 5000 Cr

2. c
Net NPA
= 50000 x 3 %
= 1500 Cr

3. c
Stadard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000

Provision for standard loans (general advance)
= 0.4%
= 45000 x 0.4%
= 180 Cr

4. b
Provision of NPA
= (Gross NPA - Net NPA) x Total Advances
= (10% - 3%) x 50000
= 7% x 50000
= 3500 Cr

5. b
Provision on Total Advances
= Provision of NPA + Provision for standard loans
= 3500 + 180
= 3680 Cr

6. a
Minimum amount of provision to be maintained to meet the PCR of 70%
= Gross NPA x PCR
= 5000 x 70%
= 3500 Cr

7. b
Stadard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000

Provision for standard loans (direct advances to agricultural)

= 0.25%
= 45000 x 0.25%
= 112.5 Cr

8. b
Stadard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000

Provision for standard loans (SMEs Sector)
= 0.25%
= 45000 x 0.25%
= 112.5 Cr

9. d
Stadard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000

Provision for standard loans (Commercial Real Estate (CRE) Sector)
= 1%
= 45000 x 1%
= 450 Cr

10. c
Stadard Accounts
= Total advances - Gross NPA
= 50000 - (50000 x 10%)
= 50000 - 5000
= 45000

Provision for standard loans (Commercial Real Estate (CRE) Sector)
= 0.75%
= 45000 x 0.75%
= 337.5 Cr

SME - Small and Micro Enterprises
CRE - Commercial Real Estate (CRE) Sector
CRE - RH - Commercial Real Estate – Residential Housing Sector (CRE - RH)
....

Before launching new financial products who assesses the Operational risk inherent to them?

a. Risk management Committee
b. Board of Directors
c. ORM Department
d. There is no correct option

Ans - c

....

From the following information calculate operational risk. Profit for last two years Year 1 Rs 300 cr, Year 2 Rs 380 cr. the bank has provided provisions for unpaid interest in the year 2 Rs 30 cr. In year 1 the bank has sold out certain securities in the banking book and booked the profit of Rs 10 cr.

a. Rs.30cr
b. Rs.49.50cr
c. Rs.33.99cr
d. Rs.52.50cr

Ans - d

....

Counter party risk is embedded mainly in ......

a. Forex transactions
b. Credit transactions
c. Liquidity management systems
d. All of the above

Ans - b

....

Write downs are classified into ......

a. Event Based
b. Cause-Based
c. Effect Based
d. There is no correct option

Ans - c

....

Business Disruptions and system failures are classified under?

a. Event Based
b. Cause-Based
c. Effect Based
d. There is no correct option

Ans - a
....

Investing in two assets with a correlation coefficient of 1.0 will reduce which kind of risk?

a. Market risk
b. Unique risk
c. Unsystematic risk
d. None of the above

Ans - d
....

Which of the following would bring about "off balance sheet" risk for a financial institution?

a. A bank issues a letter of credit
b. An insurance company buys some corporate bonds
c. A credit union receives a savings deposit
d. A pension fund invests in some common stock

Ans - a
....

"Off balance sheet activities" would include ......

a. A letters of credit
b. A loan commitment
c. Purchase of a futures contract
d. A position in an interest rate swap

Ans - a
....

When maturities of liabilities and assets are mismatched and risk incurred by financial intermediaries then this risk is classified as ......

a. interest rate risk

b. channel rate risk
c. economic risk
d. issuance risk

Ans - A
....

A U.S. bank, Stateside Bank, makes some cross-border loans denominated in the euro. Fluctuations in the dollar value of the euro will give rise to ......

a. credit risk
b. off balance sheet risk
c. operational risk
d. foreign exchange risk

Ans - d
....

An Operational Risk can be defined as ...... (i) A risk resulting from lack of internal controls or systems is an Operational Risk, (ii) Transaction Risk is also a part of Operational Risk, (iii) Compliance Risk is also included in Operational Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

A banking system under which the banks are to raise low cost funds and invest such funds in low risk assets such as govt. securities, is known as ......

a. narrow banking
b. universal banking
c. rural banking
d. risk management banking

Ans - a
....

Market provides a platform for trading of existing securities and price discovery thereof ......

a. primary market

b. secondary market
c. money market
d. insurance market

Ans - b

An entity established or incorporated outside India which proposes to make investment in India and which is registered as such, in accordance with the SEBI Regulations is called ......

a. Indian Depository Receipt
b. Foreign Institutional Investor
c. Foreign Direct Investment
d. Foreign Currency Convertible Bond

Ans - b

What is Forex Risk? (i) A risk which may arise due to adverse exchange rate movements is called Forex Risk, (ii) This occurs on account of an open position in spot or forward contracts, (iii) It is applicable on an individual foreign currency

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

A Counterparty Risk is ...... (i) It arises due to non-performance of the Trading partners where counterparty may refuse to perform, (ii) It is treated as transient Financial Risk, (iii) It is more associated with Trading

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

The features of Country Risk are ...... (i) When a Risk arises due to imposition of restrictions by a country and a borrower is not able to perform the promise, (ii) The Risk arises due to external factor, (iii) A counterparty has no control on such Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)
Ans - d
....

RBI implemented the Basel-III recommendations in India, w.e.f ......

a. 01.01.2013
b. 31.03.2013
c. 01.04.2013
d. 30.09.2013

Ans - c
....

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

Ans - c
....

Country risk is an example of ......

a. Market risk
b. Credit risk
c. Operational risk
d. Liquidity risk

Ans - b
....

Which of the followings is/are mismatch Risk? (i) Holding Assets and Liabilities with different maturity dates and amount, (ii) Adverse movement in Interest Rate, (iii) When liability is repriced on a maturity date and this causes variation in the Interest Rate

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - b

....

The organization of a balance sheet reflects this basic ....: assets equal debts plus equity.

a. arrangement
b. assessment
c. equation
d. question

Ans - c

....

The .... of accounts is a listing of the accounts that are reflected in the financial statements.

a. book
b. chart
c. table
d. outline

Ans - b

....

A bank has invested in equity capital of a company amounting to 80 Crs and is 80% of the total equity of the company. The bank would be required to provide capital against it by way of ......

a. 9% of risk weighted asset equivalent of the investment
b. Deduction of 80 Crs from its Tier I capital
c. Deduction of 80 Crs from its Tier II capital
d. Deduction of 40 Crs from its Tier I capital and deduction of 40 Crs from its Tier II capital

Ans - d

....

For the purpose of capital adequacy ......

a. Tier II capital is limited to the level of Tier I capital
b. Tier I capital is limited to the level of Tier II capital
c. Both a & b
d. None of these

Ans - a
....

IPDIs are ......

a. Free reserves and qualifies for Tier II capital
b. Debts and qualify for Tier I capital
c. Free reserves and qualifies for Tier I capital
d. Debts and qualify for Tier II capital

Ans - b
....

The features of Embedded Option Risk are ...... (i) 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, (ii) This can be experienced in volatile situations, (iii) The greater the magnitude of changes in interest rate the higher will be the Embedded Option Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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.

Ans - b
....

Under the standardized approach, Banks divide their business activities into following Business lines ......

a. 2
b. 8
c. 10
d. 12

Ans - b
....

What is the process of Standardised Approach? (i) Gross income is a broad indicator under each business line, (ii) Gross income serves as a scale of Business operations, (iii) The capital charge for each business line is calculated by multiplying gross income by a factor assigned to that business line

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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
c. Hybrid capital instrument
d. Subordinated Debt

Ans - b
....

Which of the followings are basic principles of Basel Accord to control International supervisory coverage? (i) No foreign Bank should escape supervision, (ii) Supervision should be adequate

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d
....

Minimum capital requirement is ...... (i) Capital for Credit Risk, (ii) Capital for Market Risk, (iii) Capital for Operational Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Capital for credit Risk should be measured based on following Approaches ...... (i) Standardized Approach, (ii) Internal Rating Based Foundation Approach, (iii) Internal Rating based Advanced Approach

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The disclosure norms under market discipline should focus on ...... (i) Disclosure will defined on legal authority and accounting standards of each country, (ii) Disclosure norms should match with internal financial reporting standards

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - a
....

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

Ans - a
....

Which of the following is not a operational risk?

a. Compliance risk
b. Transaction risk
c. Legal Risk
d. Counter party risk

Ans - d
....

Strategic Risk and Reputation Risk fall in the category of ......

a. Market risk
b. credit risk
c. Operational risk
d. none of these

Ans - d
....

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

Ans - d
....

The Feature of Basic Indicator Approach are ...... (i) A Bank must hold capital for operational Risk, (ii) The amount of Capital should be equal to 15% of positive annual gross income, (iii) Gross income is defined as net interest income plus net non-interest income

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - b
....

Reputation Risk which arises from negative public opinion may result in ...... (i) exposing an institution to litigation, (ii) financial loss, (iii) decline in customer base

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Credit enhancement provided by banks on securitized instruments originated by them by way of 'Second Loss Facility' requires capital allocation by way of ......

a. 100% deduction from Tier I capital
b. 100% deduction from Tier II capital
c. 50% deduction from Tier I capital and 50% deduction from Tier II capital
d. 9% of risk weighted asset equivalent of the facility

Ans - c
....

Assets are often listed in the order of their .... — which means how easy it would be to convert each asset into cash.

a. complexity
b. liquidity
c. security
d. simplicity

Ans - b
....

Assets are divided into three categories: Current Assets, Fixed Assets, and .... Assets.

a. Current fixed
b. Different
c. Fixed current
d. Other

Ans - d
....

Current assets will likely be turned into cash or converted into a(n) .... within a year.

a. bonus
b. expense
c. option
d. stock

Ans - b
....

Under SRP ......

1. Banks should have ICAAP process
2. Supervisors may intervene to ensure that capital does not fall below the required level
3. Supervisors have authority to order closure of bank for noncompliance with capital requirements

a. 1 and 2 are true
b. 2 and 3 are true
c. 1 and 3 are true
d. All are true

Ans - d
....

ICAAP document of the bank may not contain ......

a. Anticipated capital expenditure
b. Monitoring system for compliance with internal policies
c. Strategic plan of the bank
d. All these may be included in ICAAP document

Ans - d
....

Principle of proportionality in ICAAP implies ......

a. Increasing capital as business level increases
b. Apportioning of capital across various risk categories proportionally
c. Additional capital for risks not covered under pillar I guidelines in proportion to capital requirement assessed
d. Higher degree of sophistication in risk assessment methodologies as complexity of banking operation increases

Ans - d
....

Capital of market Risk be measured through ...... (i) Maturity Method, (ii) Duration Method, (iii) Internal Models Method

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Capital for operational Risk can be measured by adopting ...... (i) Basic Indicator Approach, (ii) Standardised Approach, (iii) Advanced Measurements Approach

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Effective supervision can be achieved through ...... (i) On site inspections, (ii) off site review, (iii) review of work done by external auditors

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Basel III recommendations shall be completely implemented in India by ......

a. 31.03.2020
b. 31.03.2019
c. 31.03.2618
d. 31.03.2017

Ans - b
....

Basel III capital regulations were released by Basel Committee on Banking Supervision (BCBS) during as a Global Regulatory Framework for more resilient banks and banking systems ......

a. December 2010
b. March 2011
c. December 2011
d. December 2012

Ans - a
....

Basel III capital regulations are based on 3 mutually reinforcing pillar. These pillars are ...... (i) Pillar-1 minimum capital standards, (ii) supervisory review of capital adequacy (iii) risk management

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - a
....

Under Basel II the option available to compute capital for credit risk are ......

a. standardized approach
b. risk management approach
c. advance measurement approach
d. standardized approach,

Ans - c
....

When the bank is selling 3rd party products, which type of risk is involved?

a. reputation risk
b. operational risk
c. credit risk
d. liquidity risk

Ans - b

....

What is Basic Point Value? (i) It indicates the change in value due to one basis change in market yield, (ii) It is a risk measurement tool, (iii) Higher the Basic Point value, higher is the risk associated with the instrument

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

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

Ans - b

....

Which of the following is significant regarding Duration? (i) This concept was introduced by Frederick Mc Cauley, (ii) It was proposed in 1938, (iii) It describes bond's price sensitivity to yield change with a simple number

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Fixed assets are saleable, but are not expected to be converted to cash in the .... course of business.

a. average
b. equal
c. final
d. normal

Ans - d
....

A balance sheet shows the financial .... that a company has at a point in time and where they came from.

a. records
b. resources
c. returns
d. revenues

Ans - b
....

If the assets of a company are greater than its liabilities, then the equity of the business is the positive .... between the two numbers.

a. calculation
b. difference
c. dividend
d. sum

Ans - b
....

A bank makes provision in an account with outstanding balance of 100 Crs (Risk Weight 150%) of 30 Crs. The amount that will qualify for Tier II capital is ......

a. 1.25 Crs
b. 30 Crs
c. Nil
d. None of these

Ans - c
....

A bank makes a floating provision of 100 crs against its credit exposure. The amount that will qualify for Tier II capital is ......

a. 100 Crs
b. 100 Crs provided it is within the limit alowed for the purpose
c. Nil
d. None of these

Ans - b
....

What is yield volatility? (i) It is degree of variance in yield, (ii) This is unaffected by time and duration, (iii) It rises when the yield fails

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The price volatility is ...... (i) A degree of variance in price, (ii) The yield does not effect the price volatility, (iii) The time and duration affect the volatility substantially

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

When the objective is to follow the best practices to conduct the affairs of a company or bank in a transparent manner for giving fair deal to all the stake holders, this is called ......

a. implementation of prudential guidelines
b. organisational restructuring
c. corporate governance
d. corporate restructuring

Ans - c
....

Capital charge for credit Risk under standardized approach has the following features ...... (i) It has fixed Risk weights corresponding to each supervisory category, (ii) Banks to use external credit assessments to enhance Risk sensitivity, (iii) The Risk weights are differentiated based on external credit assessment

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

In the following activities one activities is not to be considered under standardize approach for measurement of operational risk.

a. corporate finance
b. retail banking
c. asset management
d. non fund based finance

Ans - d

....

In case of money market operation fourteen day treasury bill will be auction on every week.

a. Thursday
b. Friday
c. Monday
d. Tuesday

Ans - b

....

A late night news report says the President of a local bank is about to be arrested for embezzling money from the bank he works at. This causes most of the depositors to line up in front of the bank the next morning wanting to withdraw their deposits. This is an example of ......

a. Liquidity risk
b. Operational risk
c. Interest rate risk
d. Credit risk

Ans - a

....

A Bank reports a one-week VaR of $1M at the 95% confidence level. Which of the following statements is most likely to be true?

a. The daily return on the company portfolio follows a normal distribution so that a one-week VaR could be computed.
b. The one week VaR at the 99% confidence level is $5M
c. With probability 95%, the company will not experience a loss greater than $95M in one week.
d. With probability 5%, the company will loose $1M or more in one week

Ans - d

....

If the default probability for an "A"-rated company over a three year period is 0.30%, then the most likely probability of default for the same company over a six year period is ......

a. 0.30%
b. Between 0.30% and 0.60%
c. 0.60%
d. Greater than 0.60%

Ans - d

....

At portfolio level what are Techniques used to mitigate credit risk?

a. Asset Securitization
b. Credit Derivatives
c. Both a and b
d. None of these

Ans - c

....

What is the main objective of loan review mechanism?

a. To identify incipient deterioration in portfolio quality
b. To report on adherence to internal policies / procedures
c. To provide feedback on effectiveness of credit sanction processes
d. All of these

Ans - d

....

Under Standardized Approach for the measurement of operational risk, beta factor for Payment and settlement ......

a. 20%
b. 18%
c. 15%
d. 12%

Ans - b
....

If Bank A sells some its loans to Bank B for cash, everything else equal ......

a. Bank A's assets decrease and Bank B's assets increase.
b. Bank A becomes less liquid while Bank B becomes more liquid.
c. Banks A' total assets do not change, but Bank A is more liquid.
d. Bank A's liabilities decrease by the amount of the loans that are sold

Ans - c
....

Which of the following statements are true?

a. A bank's assets are its sources of funds
b. A bank's liabilities are its uses of funds
c. A bank's balance sheet shows that total assets equal total liabilities plus equity capital
d. Each of the above

Ans - c
....

Risk arising out of mismatch in maturity payment in assets and liability is known as ......

a. Credit
b. Operational transactions
c. Liquidity
d. None of the above

Ans - c
....

The parameters that are important in ALM are ......

a. NIM

b. Net Interest Income
c. Economic Equity Ratio
d. All of the above

Ans - d
……………………………………

Which of the following statement is incorrect regarding credit default swaps?

a. A CDS is in effect an insurance policy on the default risk of a corporate bond.
b. CDS were designed to allow lenders to buy protection against losses on sizable loans.
c. CDS are designed to transfer the credit exposure of variable income products between parties.
d. The swap buyer pays an annual premium to the swap seller in exchange, receives a payoff if a credit instrument goes into default

Ans - c
……………………………………

Which of the following procedures is essential in validating the VaR estimates?

a. Back Testing
b. Scenario Analysis
c. Stress Testing
d. Once approved by regulators no further validation is required

Ans - a
……………………………………

On a 5 point scale (very high, high average, moderate & low), probability of occurrence of an activity has been estimated at an average level. Potential financial impact is estimated at high level. Given that the impact of internal control is 40%, what is estimated level of operational risk?

a. Very high to high
b. High to average
c. Average to moderate
d. Moderate to low

Ans - c
……………………………………

Which of the following is not covered under 'Market Discipline' pillar of Basel III?

a. Ensure maintenance of minimum capital - with PCA for shortfall
b. Timely - Semin annual

c. Enhance Disclosure
d. Core disclosures and supplementary disclosures

Ans - a
....

In the internal rating based approach, capital charge computation is a function of various parameters. Which of the following is not one of those parameters?

a. Probability of default
b. Maturity
c. Exposure at default
d. None

Ans - d
....

When Rs. 1 million is deposited at a bank, the required reserves ratio is 20 percent (SLR), and the bank chooses not to hold any reserves but makes loans instead, then, in the bank's final balance sheet ......

a. the assets at the bank increase by Rs.200,000
b. the liabilities of the bank increase by Rs.200,000
c. SLR reserves increase by Rs. 200,000
d. each of the above occurs

Ans - c
....

If a bank has Rs.1 million of deposits, a required reserve ratio of 20 percent, and Rs.300,000 in reserves, it need not rearrange its balance sheet if there is a deposit outflow of

a. Rs.50,000
b. Rs.75,000
c. Rs.150,000
d. either (A) or (B) of the above

Ans - d
....

If a bank has Rs.100,000 of deposits, a required reserve ratio of 25 percent, and Rs.50,000 in reserves, then the maximum deposit outflow it can sustain without altering its balance sheet is

a. Rs.30,000
b. Rs.25,000

c. Rs.20,000
d. Rs.10,000

Ans - b

....

As per principle of credit pricing based on credit rating, a borrower rated B shall be charged more interest compared to another borrower rated A is due to ......

a. Regulatory requirement
b. Industry practice
c. Higher probability of default
d. All of the above

Ans - c

....

The probability of a company entering bankruptcy within next 12 months period is measured by the following technique ......

a. Credit metrics
b. Credit risks
c. Credit maps
d. All man's Z score

Ans - d

....

Which of the following will be Loss given default (LGD) for capital charge computation under IRB if the total exposure is 1,000,000 $ and proportion of loss is 15%?

a. 1,000,000.00
b. 80,000.00
c. 150,000.00
d. Depends on probability of default (PD)

Ans - c

....

Which of the following is a key difference under foundation IRB and advanced IRB?

a. PD
b. EAD
c. Maturity

d. Data requirements

Ans - d

....

In case of Domestic banks risk weights are assigned depends on?

a. CRAR
b. ECA
c. CSU
d. None

Ans - a

....

Which is the only approach using for Export Credit Agencies?

a. Scandalized Approach
b. Basic Indicator
c. Simplified Standard approach
d. None

Ans - c

....

In the raising interest rate scenario, a prudent and aggressive banker would follow the following strategy ......

a. Reprice assets more frequently
b. Reprice liabilities more frequently
c. Match assets and liabilities closely
d. All of the above

Ans - a

....

Under advanced IRB approach who provides input for LGD ......

a. Bank
b. Supervisor
c. Function provided by BCBS
d. None

Ans - a

Certain risks in banking business are managed at transaction level and aggregate level; whereas few risks are managed at aggregate level only. Identify the risks managed at aggregate level only?

a. Credit risk
b. Operational risk
c. Market risk
d. Liquidity risk

Ans - d
………………………………………

(Eligible total capital funds) / (RWAs for Credit Risks + RWAs for market risks + RWAs for operational risks) is ......

a. Total CRAR
b. Capital adequacy ratio
c. Tier I CRAR
d. None of these

Ans - a
………………………………………

Which of the following is part of Total Capital Funds?

a. Subordinated debts issued and computed in accordance with the regulatory guidelines for the purpose
b. Capital reserves arising out of sale proceeds of assets
c. Revaluation reserves at a discount of 55%
d. All of the above

Ans - d
………………………………………

In the process of A.L.M., price matching is used to assess whether an institution is in a position to benefit by raising interest rates through "Positive Gap". Positive Gap means:

a. Assets more than liabilities
b. Liabilities more than assets
c. Either a or b
d. None of the above

Ans - a
………………………………………

Risk of having to compensate for non-receipt of expected cash flows by a Bank is called ......

a. Call risk
b. Funding risk
c. Time risk
d. Credit risk

Ans - c

....

The Banks which Absorbs credit and market risks and ensuring lower risk for depositor's funds ......

a. Maturity Intermediation
b. Risk Intermediation
c. Both a and b
d. None of these

Ans - b

....

To determine adjusted exposure under standardized approach total exposure on borrower includes which of the following?

a. Outstanding balances in fund based facilities
b. Outstanding non fund based facilities
c. Unavailed portion of the sanctioned fund - based facilities
d. All of the above

Ans - d

....

Which of following instrument s not eligible for Credit risk Mitigation?

a. Cash
b. Mutual fund
c. Life Insurance
d. OTC

Ans - d

....

The liquidity of the Bank is determined by:

a. Ability to accommodate decrease in liabilities

b. Abilities to fund increase in assets
c. Converting assets to cash quickly and at good costs
d. All of the above

Ans - d

....

The fact that a bank's assets tend to be long-term while its liabilities are short term creates ......

a. Interest rate risk
b. Credit risk
c. Lower risk for the bank, this is why they follow this strategy.
d. Trading risk

Ans - a

....

In a well diversified portfolio, ... risk is negligible.

a. non diversifiable
b. market
c. systematic
d. unsystematic

Ans - d

....

According to the capital asset pricing model, a well-diversified portfolio's rate of return is a function of ......

a. market risk
b. unsystematic risk
c. unique risk
d. reinvestment risk

Ans - a

....

The Standardised Approach to capital charge for credit Risk focuses on ...... (i) Loans considered as past due should have a Risk weight of 150 per cent, (ii) Uniform weight of 57 per cent on specified portfolios, (iii) Lower Risk weights for retail exposures

a. Only (i) and (ii)
b. Only (i) and (iii)

c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Risk which arises all activities from contingent liabilities and assets is considered as ......

a. off balance sheet risk
b. income statement risk
c. balance of trade risk
d. balance of payment risk

Ans - A
....

According to the capital asset pricing model, a security with a ......

a. negative alpha is considered a good buy
b. positive alpha is considered overpriced
c. positive alpha is considered underpriced
d. zero alpha is considered a good buy

Ans - c
....

Under standardized approach for measurement of operational risk, beta factor for retail banking is ......

a. 2%
b. 15%
c. 18%
d. 20%

Ans - a
....

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

Ans - a

Given below are cash flow of 4 different business options.
Options - Mean of Cash Flow over last 4 years - Standard Deviation
option A - 24 lacs - 2.50
option B - 32 lacs - 2.50
option C - 2O lacs - 1.50
option D - 10 lacs - 0.50

1. Based on the data given above, business option with highest risk is ......

a. A
b. B
c. C
d. D

Ans - a

2. The standard deviation of the cash flows of the portfolio containing all the business options is ......

a. 1.75
b. Around 0.30
c. 7
d. Can't be determined based on the data given

Ans - d

3. Based on the data given above, business option with lowest risk is ......

a. A
b. B
c. C
d. D

Ans - d

Solution :
% Risk= Standard deviation/Mean
Option A 2.50/24=10.4%- for Business option A
Option B 2.50/32=7.8%- for Business option B
Option C 1.50/20=7.5%- for Business option C
Option D 0.50/10=5.0%- for Business option D
01. Option A has the highest risk
02. Can't be determined based on given data
03. Option D has the least risk.
....

Answer the following questions based on the fInancial results of an International Bank provided below as on Mar 31, 2017.

Interest earned - Rs. 50000 cr
Interest paid — Rs. 25000 cr
Income on sale of Yd party products — Rs. 200 cr
Other non-interest income — Rs. 5000 cr
Profit on sale of fixed assets — Rs. 500 cr
Operating expense — Rs. 10000

1. What is the amount of gross income as per Basic Indicator Approach for operational risk?

a. Rs.4500 cr
b. Rs.20700 cr
C. Rs.30000 cr
d. Rs.39130 cr

Ans - c
....

2. What is the amount of capital charge for operational risk under basic indicator approach?

a. Rs.4500 cr
b. Rs.20700 cr
C. Rs.30000 cr
d. Rs.39130 cr

Ans - a
....

3. What is the amount of risk weighted assets for operational risk under basic indicator approach as per Basel III in India (RBI requirement)?

a. Rs.4500 cr
b. Rs.20700 cr
C. Rs.30000 cr
d. Rs.39130 cr

Ans - d
....

4. What is the amount of operating profit?

a. Rs.4500 cr

b. Rs.20700 cr
C. Rs.30000 cr
d. Rs.39130 cr

Ans - b
....

Explanation:

1. Gross income = Net interest income + net non-interest income
Net interest income = Interest earned - Interest paid
= 50000 – 25000
= 25000

Gross income = 25000 + 5000
= 30000

2. Capital charge for operational risk = Gross income x l5%
= 30000 x 15%
= 4500 cr

3. RWA = Capital charge / Minimum Basel-3 CAR
RWA = 4500 / 11.5% = 39130 cr

4. Operating profit = Interest earned + other non-interest income + profit on sale of fixed assets + income on sale of 3 party products - interest paid - operating expense
= 50000 + 5000 + 500 + 200 - 25000 - 10000
= 20700
....

It is an instant photograph that displays the company's financial .... at the end of a business month, quarter or year.

a. explanation
b. position
c. publication
d. station

Ans - b
....

Balance sheet of a bank provides the following information:

Fixed Assets - 1600cr
Investment in central Govt Securities - Rs 12000cr

In standard loan accounts
Housing Loans - RS 7500cr (Secured, below Rs 10 lac)
the Retail loan - Rs 6000cr
Other loans - Rs 5000cr

sub-standard secured loans - Rs 1200cr
sub-standard unsecured loans - Rs 600cr
Doubtful loans (D-1, secured) - Rs 900cr
Doubtful loans (D-1, unsecured) - Rs 800cr
Doubtful loans (D-2, secured) - Rs 600cr
Doubtful loans (D-2, unsecured) - Rs 1200cr
Doubtful loans (D-3, secured) - Rs 1400cr
Doubtful loans (D-3, unsecured) - Rs 750cr
Loss Assets - 100cr and
other assets - Rs 600cr

Answer the following questions, based on this information, by using standard Approach for credit risk.

1. What is the amount of RWAs for investment in govt securities?

a. Rs 5000cr
b. Rs 3500cr
c. Rs 2500cr
d. Nil

2. What is the amount of RWAs for sub-standard secured accounts?

a. Rs 500cr
b. Rs 1500cr
c. Rs 1800cr
d. Rs 2000cr

3. What is the amount of RWAs for sub-standard unsecured accounts?

a. Rs 500cr
b. Rs 600cr
c. Rs 1000cr
d. Rs 1500cr

4. What is the amount of RWAs for doubtful (D-1, Secured) accounts?

a. Rs 300cr
b. Rs 500cr
c. Rs 800cr
d. Rs 900cr

5. What is the amount of RWAs for doubtful (D-1, unSecured) accounts?

a. Rs 300cr
b. Rs 400cr
c. Rs 600cr
d. Rs 700cr

6. What is the amount of RWAs for doubtful (D-2, Secured) accounts?

a. Rs 300cr
b. Rs 400cr
c. Rs 600cr
d. Rs 700cr

7. What is the amount of RWAs for doubtful (D-2, unSecured) accounts?

a. Rs 300cr
b. Rs 400cr
c. Rs 600cr
d. Rs 700cr

8. What is the amount of RWAs for doubtful (D-3, Secured) accounts?

a. Rs 300cr
b. Rs 400cr
c. Rs 600cr
d. Rs 700cr

9. What is the amount of RWAs for doubtful (D-3, Secured) accounts?

a. Rs 300cr
b. Rs 375cr
c. Rs 450cr
d. Rs 600cr

10. What is the amount of RWAs for retail loans?

a. 3000cr
b. 3750cr
c. 4500cr
d. 6000cr

11. What is the amount of RWAs for housing loans?

a. 3000cr
b. 3750cr
c. 4500cr
d. 6000cr

Solution :

1. d
RW against Govt Securities = 0 %

So, RWA
= 12000 x 0%
= 0 Cr

2. c
If the provision is less than 20 %, then RW is 150%
If the provision is 20-50 %, then RW is 100%
If the provision is more than 50 %, then RW is 50%

Provision in Sub-Standard Secured - 15 %, and so, RW = 150 %

So, RWA
= 1200 x 150 %
= 1800 Cr

3. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in Sub-Standard Un-Secured - 25 %, and so, RW = 100 %

So, RWA
= 600 x 100 %
= 600 Cr

4. d
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-1, Secured) - 25 %, and so, RW = 100 %

So, RWA
= 900 x 100 %
= 900 Cr

5. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-1, unsecured) - 100 %, and so, RW = 50 %

So, RWA
= 800 x 50 %
= 400 Cr

6. c
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-2, Secured) - 40 %, and so, RW = 100 %

So, RWA
= 600 x 100 %
= 600 Cr

7. c
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-2, unsecured) - 100 %, and so, RW = 50 %

So, RWA
= 1200 x 50 %
= 600 Cr

8. d
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-3, Secured) - 100 %, and so, RW = 50 %
So, RWA
= 1400 x 50 %
= 700 Cr

9. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-3, unsecured) - 100 %, and so, RW = 50 %
So, RWA
= 750 x 50 %
= 375 Cr

10. c
RW on retail loans = 75 %
So, RWA
= 6000 x 75%
= 4500 Cr

11. b
RW on housing loans = 50 %
So, RWA
= 7500 x 50%
= 3750 Cr
…………………………………….

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

Ans - a
…………………………………….

Balance sheet of a bank provides the following information:

Total advances Rs 60000cr, Gross NPA 8% and Net NPA 2%, Based on this information, answer the following questions?

1. What is the amount of gross NPA?

a. Rs 4000cr
b. Rs 4800cr
c. Rs 5400cr
d. Rs 6000cr

2. What is the amount of net NPA?

a. Rs 1000cr
b. RS 1200cr
c. Rs 1500cr
d. Rs 1800cr

3. What is the amount of provision for standard loans, if all the standard loan account represent general advance?

a. Rs 180cr
b. Rs 200cr
c. Rs 220cr
d. Rs 240cr

4. What is the provision on NPA accounts?

a. Rs 3000cr
b. RS 3600cr
c. Rs 4200cr
d. Rs 4800cr

5. What is the total amount of provisions on total advances, including the standard accounts?

a. Rs 3300cr
b. Rs 3360cr
c. Rs 3800cr
d. Rs 3820cr

6. What is the minimum amount of provision to be maintained to meet the PCR of 70%?

a. Rs 3300cr

b. Rs 3360cr
c. Rs 3800cr
d. Rs 3820cr

7. What is the amount of provision for standard loans, if all the standard loan account represent direct advances to agricultural?

a. Rs 138cr
b. Rs 276cr
c. Rs 414cr
d. Rs 552cr

8. What is the amount of provision for standard loans, if all the standard loan account represent advances to SMEs sectors?

a. Rs 138cr
b. Rs 276cr
c. Rs 414cr
d. Rs 552cr

9. What is the amount of provision for standard loans, if all the standard loan account represent advances to CRE sectors?

a. Rs 138cr
b. Rs 276cr
c. Rs 414cr
d. Rs 552cr

10. What is the amount of provision for standard loans, if all the standard loan account represent advances to CRE-RH sectors?

a. Rs 138cr
b. Rs 276cr
c. Rs 414cr
d. Rs 552cr

Solution :

1. b
Gross NPA
= 60000 x 8 %
= 4800 Cr

2. b

Net NPA
= 60000 x 2 %
= 1200 Cr

3. c
Standard Accounts
= Total advances - Gross NPA
= 60000 - (60000 x 10%)
= 60000 - 4800
= 55200

Provision for standard loans (general advance)
= 0.4%
= 55200 x 0.4%
= 220 Cr

4. b
Provision of NPA
= (Gross NPA - Net NPA) x Total Advances
= (8% - 2%) x 60000
= 6% x 60000
= 3600 Cr

5. d
Provision on Total Advances
= Provision of NPA + Provision for standard loans
= 3600 + 220
= 3820 Cr

6. b
Minimum amount of provision to be maintained to meet the PCR of 70%
= Gross NPA x PCR
= 4800 x 70%
= 3360 Cr

7. a
Standard Accounts
= Total advances - Gross NPA
= 60000 - (60000 x 8%)
= 60000 - 4800
= 55200

Provision for standard loans (direct advances to agricultural)
= 0.25%

= 55200 x 0.25%
= 138 Cr

8. a
Standard Accounts
= Total advances - Gross NPA
= 60000 - (60000 x 8%)
= 60000 - 4800
= 55200

Provision for standard loans (SMEs Sector)
= 0.25%
= 55200 x 0.25%
= 138 Cr

9. d
Standard Accounts
= Total advances - Gross NPA
= 60000 - (60000 x 8%)
= 60000 - 4800
= 55200

Provision for standard loans (Commercial Real Estate (CRE) Sector)
= 1%
= 55200 x 1%
= 552 Cr

10. c
Standard Accounts
= Total advances - Gross NPA
= 60000 - (60000 x 8%)
= 60000 - 4800
= 55200

Provision for standard loans (Commercial Real Estate (CRE) Sector)
= 0.75%
= 45000 x 0.75%
= 414 Cr

SME - Small and Micro Enterprises
CRE - Commercial Real Estate (CRE) Sector
CRE - RH - Commercial Real Estate – Residential Housing Sector (CRE - RH)
....

Answer the following questions, based on the below given information

Tier I capital - 2,500 Crs
Tier II capital - 2,000 Crs
RWAs for credit risk other than retail assets (including 2,000 Crs of commercial real estate) - 35,500 Crs
Exposure on retail assets - 8,700 Crs
Total eligible financial collaterals available for retail assets - 1,200 Crs
Capital charge for general market risk net position - 450 Crs
Capital charge for specific risk - 190 Crs
Vertical adjustment - 15 Crs
Horizontal adjustment - 10 Crs
Total capital charge for equities - 150 Crs
Total capital charge for options - 70 Crs
Gross income for the previous year - 495 Crs
Gross income for the year before previous year - 450 Crs
Gross income for 2nd year before previous year - 390 Crs

1. The bank compares its tier I CRAR with minimum required tier CRAR and finds ......

a. Its tier I CRAR is more and exceeds requirement by 675 Crs
b. Its tier I CRAR is more and exceeds requirement by 355 Crs
c. Its tier I CRAR falls short by 854 Crs
d. None of these

Ans - c

2. The CRAR of the bank is ......

a. 9.35%
b. 8.05%
c. 10.22%
d. None of these

Ans - b

3. Total risk weighted assets for market risk is ......

a. 7500 Crs
b. 8000 Crs
c. 8500 Crs
d. None of these

Ans – d

4. The capital required (rounded off) for credit risk at minimum required rate as per RBI is ......

a. 3500 Crs
b. 3700 Crs
c. 3900 Crs
d. 4100 Crs

Ans - b

5. Total risk weighted assets for operational risk is ......

a. 4894 Crs
b. 4944 Crs
c. 4984 Crs
d. 5024 Crs

Ans - b

Solution :

1. Tier I CAR should be atleast 6% of total RWAs
= 6% × 55902 = Rs. 3354 crores
Tier I capital is Rs 2500 crores
So, Tier I capital falls short by (3354-2500) = Rs.854 crores

2. The CRAR of the bank = (2500+2000)/(35500+5625+9833+4944)×100
= (4500/55902)×100
= 8.04%

3. Total RWAs for market risk = Rs.(450+190+15+10+150+70)/9/100
= Rs. 9833.33 crores

4. Uniform risk weight asset is 75% of retail asset portfolio except NPAs
= 75% × (8700 - 1200) = Rs. 5625
Now minimum required rate is 9% for the capital required for credit risk
So, the capital will be 9% × (35500+5625) = Rs.3700 crores approx.

5. Average gross income = (495+450+390)/3
= Rs. 445 crores

Total RWAs for operational risk = 445/0.09
= Rs. 4944.44 crores
....

Answer the following questions based on the financial results of an International Bank provided below as on Mar 31, 2017.

Interest earned - Rs. 60000 cr
Interest paid — Rs. 30000 cr
Income on sale of Yd party products — Rs. 400 cr
Other non-interest income — Rs. 6000 cr
Proflt on sale of fixed assets — Rs. 800 cr
Operating expense — Rs. 12000

1. What is the amount of gross income as per Basic Indicator Approach for operational risk?

a. Rs.5400 cr
b. Rs.25200 cr
C. Rs.36000 cr
d. Rs.46596 cr

Ans - c
…………………………………….

2. What is the amount of capital charge for operational risk under basic indicator approach?

a. Rs.5400 cr
b. Rs.25200 cr
C. Rs.36000 cr
d. Rs.46596 cr

Ans - a
…………………………………….

3. What is the amount of operating profit?

a. Rs.5400 cr
b. Rs.25200 cr
C. Rs.36000 cr
d. Rs.46596 cr

Ans - b
…………………………………….

4. What is the amount of risk weighted assets for operational risk under basic indicator approach as per Basel III in India (RBI requirement)?

a. Rs.5400 cr

b. Rs.25200 cr
C. Rs.36000 cr
d. Rs.46596 cr

Ans - d
....

Explanation:

1. Gross income = Net interest income + net non-interest income
Net interest income = Interest earned - Interest paid
= 60000 — 30000 = 30000
Gross income = 30000 + 6000
= 36000

2. Capital charge for operational risk = Gross income x l5%
Gross income = Net interest income + net non-interest income
Net interest income = Interest earned - Interest paid
= 60000 — 30000 = 30000
Gross income = 30000 + 6000 = 36000
Capital charge for operational risk = 36000 x 15%
= 5400 cr

3. Operating profit = Interest earned + other non-interest income + profit on sale of fixed assets + income on sale of 3 party products — interest paid — operating expense
= 60000 + 6000 + 800 + 400 - 30000 - 12000
= 25200

4. RWA = Capital charge / minimum Basel-3 CAR
RWA = 5400 / 11.5% = 46596 cr
....

The Risk mitigation measures may result in ...... (i) Reducing downside variability, (ii) Reducing upside potential

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - a
....

A bank raises a floating rate corporate deposit of 50 crs for 2 years at a rate 50 BPs over 91 days T bill rates that gets re-priced at every calendar quarter. The proceeds of the deposit is used to finance

(A) a project loan of 25 Crs for a period of 5 years having moratorium of 2 years. Interest rate is set at 300 BPs over 5 year GOl bond with reset date at the end of each calendar year.
(B) The balance of 25 crs is invested in 5 year GOI bond with remaining period of 2 years

These transactions stood recorded in the books of the bank on 01.01.2018

Answer the following Questions based on the above transaction

1. The bank may face liquidity problem over one year because the entire transaction is associated with ......

a. Call risk
b. Funding risk
c. Time risk
d. Default risk

Ans - a
....

2. The bank may see variation in its net interest income over lyear in respect of asset 'a' because the transaction is associated with ......

a. Gap risk
b. Yield curve risk
c. Market risk
d. This is interest rate risk neutral transaction

Ans - b
....

3. There is a sudden fall in interest rates. The bank would ......

a. Gain on asset A and loose on asset B
b. Gain on asset A and gain on asset B
c. Loose on asset A and loose on asset B
d. Loose on asset A and gain on asset B

Ans - b
....

4. The asset acquired under item 'B' above would have the following risk ......

a. Yield curve risk
b. Gap risk
c. Embedded option risk
d. Market risk

Ans - d
....

5. After 2 years the bank would face ......

a. Market risk
b. Operational risk
c. Liquidity risk
d. Interest rate risk

Ans - d
....

Under Internal Rating Based Approach the Risk weights are calculated on the following parameters ...... (i) Probability of default by Borrower over a given time horizon, (ii) Loss exposure if default occurs, (iii) Remaining economic maturity of the exposure

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

What is Yield Curve Risk? (i) When two different instruments maturing at different time horizon for pricing Assets and Liabilities, (ii) There may not be parallel movement in the Interest Rates of both of the instruments, (iii) Non parallel movement in the Yield Curve may affect the Net Interest Income

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Liabilities are debts or .... stemming from goods or services received by the company.

a. obligations
b. others
c. outstandings
d. owed

Ans - a

....

Which of the followings is/are correct regarding the Basis Risk? (i) When a variation in the market interest rate effects Net Interest Income to expand it will have unfavorable basis shifts, (ii) When interest rate movement causes Net Interest Income to contract the basis would have moved against the Bank, (iii) The loan portfolio is funded out of a composite liability portfolio, this causes higher degree of Basis Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - c

....

Replacement of relatively high -cost debt with that of lower cost borrowing to take advantage of falling interest rates is called ......

a. debt replacement
b. derivative
c. credit enhancement
d. debt swap

Ans - d

....

In capital market, the term 'Market cap' is the product of ......

a. market price x authorised capital
b. market price x paid up capital
c. market price x outstanding no. of shares
d. market price x shares

Ans - c

....

The operational Risk can be measured through ...... (i) the Basic indicator approach, (ii) the Standardised approach, (iii) Advanced measurement approach

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

Under Basel III, the options available to compute capital for operational risk are ......

a. standardized approach
b. risk management approach
c. advance measurement approach
d. basic indicator approach

Ans - b

The features of Internal Rating Based Approach are ...... (i) It is innovative approach to measure capital requirement for credit Risk, (ii) It complies the capital requirement of each exposure directly before computing the Risk weighted assets, (iii) Capital charges are computed based on probability of default, loss given the default and exposure at default

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

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

Ans - b

The conditions under internal rating based approach are ...... (i) It does not allow individual Bank to determine the elements for calculation of capital requirement, (ii) Capital charges are determined through the combinations of quantitative inputs, (iii) It stresses on Banks internal assessment of key Risk drivers as primary inputs to the capital calculations

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the following statements is correct regarding Yield Curve Risk? (i) When Interest Rates are floating Banks may price Assets and Liabilities on different instruments such as Treasury Bills, Call Money Rates, MIBOR etc, (ii) A Bank needs to evaluate the movement in Yield Curves and impact of the curve on portfolio value and income, (iii) 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

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The features of Basis Risk are ...... (i) When interest rates of different Assets, Liabilities and Off Balance Sheet items change in different magnitudes it is called Basis Risk, (ii) 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, (iii) The Basis Risk is quite visible in a Volatile Interest Rate Scenario

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Basel III, the options available to compute capital for market risk are ......

a. standardized approach

b. risk management approach
c. advanced measurement approach
d. basic indicator approach

Ans - b

....

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. either a or b

Ans - d

....

As per Basel III, Tier 2 capital comprises which of the following? (1) general provisions and loss reserves (2) debt capital instruments issued by bank (3) preference share capital instruments with redeemable or cumulative feature (4) revaluation reserve (5) stock surplus i.e. share premium resulting from issue of Tier 2 eligible instruments

a. 1 to 5 all
b. 1 to 4 only
c. 1,4 and 5 only
d. 1, 2 and 3 only

Ans - a

....

As per Basel III, general provisions and loss reserves are included in Tier-2 capital maximum to the extent of ......

a. 1.25% of total risk weighted assets under standardized approach and 0.6% of total risk weighted assets under IRB approach
b. 0.6% of total risk weighted assets under standardized approach and 0.6% of total risk weighted assets under IRB approach
c. 0.6% of total risk weighted assets under standardized approach and 1.25% of total risk weighted assets under IRB approach
d. 1.25% of total risk weighted assets under standardized approach and 1.25% of total risk weighted assets under IRB approach.

Ans - a

Which of the following activities are relevant to operational Risk control practices? (i) Collection of operational Risk data, (ii) Adequate feedback mechanism, (iii) Management and control of large exposures

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Which of the following is correct regarding Duration? (i) The longer the duration of a security the greater will be the price sensitivity, (ii) Bond price changes can be measured by using modified duration, (iii) It is discounted by one period yield to maturity

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Regulations on Risk management are also helpful in ...... (i) Defining Risk in a better way, (ii) Creating better methodologies for measuring Risk

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d

....

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

Ans - a

....

The regulatory measures on Risk management focus on ...... (i) Promoting sound business and supervisory practices, (ii) Controlling and monitoring of systematic Risk, (iii) Protecting interest of depositor's

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Price volatility depends upon ......

a. Yield Volatility and market value
b. Yield Volatility, BPV and market value
c. Yield Volatility, market value and yield
d. Yield Volatility, market value, BPV and Yield

Ans - d

....

A bond portfolio having a bond A BPV Rs. 300 Crs and bond B BPV Rs. 400 Crs. How can we reduce the risk of a portfolio?

a. By increases bonds in a portfolio
b. By adding a one more bond which is more than BPV of 350
c. By adding a one more bond which has less BPV of 350
d. None of these

Ans - c

....

Extreme value theory1 is used by Stress Testing for?

a. Assessing impact on a portfolio's value for a series of predefined changes in a particular market risk factor.
b. Assessing potential consequences on a portfolio for an extreme, but possible, state of the world
c. Assessing the risks of a portfolio by identifying the most potentially damaging combination of moves of market risk factors.
d. Assessing risks of a portfolio based on predefined values in a particular risk factor

Ans - b

....

On a 5 Point scale (very high, high average, moderate & Low), probability of occurrence of an activity has been estimated at an average level. Potential financial impact is also estimated at average level. Given that the impact of internal control is 60%, what is estimated level of operational risk?

a. Very high to high
b. High to average
c. Average to moderate
d. Moderate to low

Ans - d

Price of liquidity is determined by ......

a. Market conditions
b. Nature of convertible assets on hand
c. Market perception of risks
d. All of the above

Ans - d

What is meant by 'concentration risk' in the context of credit risk management?

a. The risk that a large number of counterparties default at the same time
b. The risk that a large number of counterparties share common risk characteristics
c. There is a strong positive correlation in the historical behaviour of credit-sensitive assets in a portfolio
d. All of a, b, and c

Ans - a

'HLM Bank' is encouraging its home loan borrowers to shift to a floating rate option. We can conclude that the bank is ......

a. Trying to maximize interest income from home loans
b. Expecting home loan rates to go down in near future
c. Trying to imitate the international best practices in interest rates
d. Reduce asset sensitivity to interest rates in home loan segment

Ans - d

A bank that specializes in granting loans to firms in a specific line of business ......

a. May decrease its operating cost and decrease its credit risk
b. May increase both its operating cost and its credit risk
c. May increase its operating cost and decrease its credit risk
d. May decrease its operating costs and increase its credit risk

Ans - d
....

Which of the following approach is simplest in terms of measure capital requirement?

a. Basic Indicator Approach
b. Standardized Approach
c. Advanced Management Approach
d. All of these

Ans - a
....

What is minimum daily Cash balance that banks has to maintain with RBI?

a. 100% of CRR requirement
b. 90% of CRR requirement
c. 70% of CRR requirement
d. 50% of CRR requirement

Ans - c
....

Which of the following impact is triggered if RBI Increasing CRR requirement by 1%?

a. It Triggers exchange rates
b. it Triggers Interest Rates also
c. Money supply will reduce in economy
d. All of them are traded in exchanges

Ans - d
....

Ratio of liquid assets to total assets is one of the nine ratios used in ......

a. Flow approach
b. Stock approach

c. Balance Sheet analysis
d. All of the above

Ans - b
....

Which of the following is correct? Collateral is that element of a credit assessment which deals with ......

a. the security available when credit is extended
b. the knock-on effects that credit problems have with the lender
c. the increased rate applied to a loan to reflect credit quality
d. none of the above

Ans - a
....

A model determines VaR of 10 years G Sees based on the factors that affect the yield of 10 years G Sees determined through different scenarios analysis. This approach is called ......

a. Monte Carlo Simulation
b. Historical approach
c. Parametric approaches
d. None of these

Ans - a
....

Given interest rate of currency A is more than that of B and interest rate ofcurrency B is more than that of C. Which of the following is true?

a. Forward rate of currency 'A' would be at premium to that of C
b. Forward rate of currency 'A' would be at discount to that of B
c. Forward rate of currency 'C' would be at discount to that of B
d. Forward rate of currency 'B' would be at premium to that of A

Ans - b
....

A 10 year 8.75% bond with semi-annual interest yielding 8% has 7 years remaining for maturity: Modified duration of the bond is 6.40 years. This would be equivalent to receiving by way of bullet payment.

a. Rs. 156.00 per bond after 2336 days
b. Rs. 161 25 per bond after 2246 days

c. Rs. 156.00 per bond after 2246 days
d. Rs 161 252 per bond after 2336 days

Ans - b
....

Which of following is property of Stress Testing?

a. Identification of market parameters
b. Stress quantum
c. Determining time horizon
d. All of these

Ans - d
....

Stress testing using 'Scenario Analysis' analyzies?

a. Assessing impact on a portfolio's value for a series of predefined changes in a particular market risk factor.
b. Assessing potential consequences on a portfolio for an extreme, but possible, State of the world
c. Assessing the risks of a portfolio by identifying the most potentially damaging combination of moves of market risk factors.
d. Assessing risks of a portfolio based on statistical behaviour of the 'tails' of probability distributions.

Ans - b
....

Risk faced by financial institutions in which advancement of technology does not produce savings in cost is classified as ......

a. savings risk
b. advance risk
c. cost risk
d. technology risk

Ans - d
....

In October of 2005, the Bankruptcy Reform Act was passed, which made ......

a. made it more difficult for consumers to declare bankruptcy.
b. called for a moratorium on consumer bankruptcies.
c. called for a moratorium on collections of past-due loans.

d. made it easier for consumers to declare bankruptcy.

Ans - a

When a bank tries to make a wide variety of loans, to various kinds of borrowers, it is hoping to reap the benefit of ......

a. guaranteed income
b. diversification
c. more firm-specific risk exposure
d. reduced operational risk

Ans - b

In 2005, Argentina offered its creditors 30 cents on the dollar for a sizeable amount of its outstanding debt. The offer was non negotiable. Clearly, Argentina's creditors were exposed to ...... risk.

a. sovereign
b. operational
c. technology
d. interest rate

Ans - d

Tier-2 or supplementary capital consists ...... (i) Undisclosed Reserves, (ii) Assets Revaluation Reserve, (iii) General Provisions

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

The process of operational Risk management include ...... (i) Identification of Risk/control, (ii) Implementation of Qualitative Approach to assess operational Risk, (iii) To analyse operational Risk profile

a. Only (i) and (ii)
b. Only (i) and (iii)

c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - b
....

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

Ans - a
....

What is Value at Risk? (i) 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, (ii) It is defined as the predicted worst case loss at a specific confidence level over a certain period of time assuming normal trading conditions, (iii) Value at Risk model relies on a model of random changes

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - a
....

A need for Regulations on Risk management is more important due to ...... (i) The process of deregulation increased the competition which enhances more Risk, (ii) Competition also promoted globalization, (iii) Risk controls are necessary for maintaining level playing field

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the following tier-1 of core capital consists? (i) Equity, (ii) Disclosed Reserves

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d
....

Which of the following statement regarding the Total regulatory capital under Basel III is correct? (i) Total regulatory capital is sum total of Tier I capital and Tier 2 capital, (ii) Tier I capital is called `going-concern' capital and Tier 2 capital is called 'gone-concern' capital, (iii) Tier I capital comprises common equity Tier I and additional Tier I

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

A bank's branch plans to extend a project loan of 100 Crs for a period of 7 years at a fixed rate of interest of 15%. The loan is to be repaid in equal quarterly instalments but with 2 year moratorium. Funding of the loan is to be done by composite liabilities, present cost of funds being 7%. The branch is analyzing the risks associated with the transaction. The bor rower is rated AA, which has negligible default probability over one year.

Answer the following questions based on the information given above.

1. The type of interest rate risk the branch may face is ......

a. Yield curve risk
b. Gap risk
c. Basis risk
d. All of these

Ans - c
....

2. The loan may be prepaid by the borrower if the interest rate falls resulting in fall in NO. This would be called ......

a. Call risk
b. Gap risk
c. Embedded option risk
d. Re-pricing risk

Ans - c
....

3. After 2 years the loan defaults Ignoring changes in cost of funds, the branch's Nil would fall by ......

a. 7 Crs
b. 15 Crs
c. 8 Crs
d. None of these

Ans - b
....

4. 6 months after the transaction, interest rate in the market hardens and the borrowing cost goes up by 2%. The bank also revises its base rate upwards by 1%. As a result the branch would be affected ......

a. Favourably
b. Unfavourably

c. Neither favourably nor unfavourably
d. Can't be determined

Ans - b
....

5. One year after the transaction the borrowers credit rating is revised and it becomes AA-. The branch would term this as ......

a. Default risk
b. Down-gradation risk
c. Interest rate risk
d. Counterparty risk

Ans - b
....

Fixed Assets - 500 Crore
Govt. Securities - 5000 crore

Standard Assets
Retail - 3000 crore
HL - 2000 crore
Other loans - 10000 cr

Sub-Standard Assets
Secured - 500 crore
Unsecured - 150 crore

Doubtful (DAI) - 800 crore

1. What is the amount of Risk Weighted Assets for Standard Assets (Retail)?

a. 1000 crore
b. 2250 crore
c. 10000 crore
d. 13250 crore

2. What is the amount of Risk Weighted Assets for Standard Assets (HL)?

a. 1000 crore
b. 2250 crore
c. 10000 crore
d. 13250 crore

3. What is the amount of Risk Weighted Assets for Standard Assets (Other loans)?

a. 1000 crore
b. 2250 crore
c. 10000 crore
d. 13250 crore

4. What is the amount of Risk Weighted Assets for Standard Assets?

a. 1000 crore
b. 2250 crore
c. 10000 crore
d. 13250 crore

5. What is the amount of Risk Weighted Assets for Govt. Securities?

a. 0 crore
b. 150 crore
c. 750 crore
d. 800 crore

6. What is the amount of Risk Weighted Assets for SS Secured?

a. 0 crore
b. 150 crore
c. 750 crore
d. 800 crore

7. What is the amount of Risk Weighted Assets for SS Unsecured?

a. 0 crore
b. 150 crore
c. 750 crore
d. 800 crore

8. What is the amount of Risk Weighted Assets for Doubtful D1?

a. 0 crore
b. 150 crore
c. 750 crore
d. 800 crore

9. What is the amount of Total Risk Weighted Assets?

a. 2250 crore
b. 10000 crore
c. 13250 crore
d. 14950 crore

Solution:

1. b
RWA for Standard Assets (Retail) = 3000*75/100
= 2250 crore

2. a
RWA for Standard Assets (HL) = 2000*50/100
= 1000 crore

3. c
RWA for Standard Assets (Other loans) = 10000*100/100
= 10000 crore

4. d
RWA for Standard Assets = 2250 + 1000 + 10000
= 13250 crore

5. a
RWA for Gsec = 5000*0/100 = 0

6. c
RWA for SS Secured = 500*150/100
= 750 crore

7. b
RWA for SS Unsecured = 150*100/100
= 150 crore

8. d
RWA for Doubtful D1 = 800*100/100
= 800 crore

9. d
Total RWAs = 2250 + 1000 + 10000 + 750 + 150 + 800
= 14950 crore
....

LC within Retail portfolio (AAA rated securities) - 1000 crore
Standby LC (As Financial Guarantee) (A rated Co.) - 500 crore
Standby LC – particular transaction (AA rated Co) - 200 crore
Performance Bonds & Bid bonds (Unrated Co.) - 1000 crore
Financial Guarantees (AA rated Co.) - 400 crore
Confirmed LC for Imports (AAA rated Co.) - 100 crore

1. What is the amount of Risk Weighted Assets for LC within Retail portfolio (AAA rated securities)?

a. 30 crore
b. 40 crore
c. 250 crore
d. 500 crore

2. What is the amount of Risk Weighted Assets for Standby LC (As Financial Guarantee) (A rated Co.)?

a. 30 crore
b. 40 crore
c. 250 crore
d. 500 crore

3. What is the amount of Risk Weighted Assets for Standby LC – particular transaction (AA rated Co)?

a. 30 crore
b. 40 crore
c. 250 crore
d. 500 crore

4. What is the amount of Risk Weighted Assets for Performance Bonds & Bid bonds (Unrated Co.)?

a. 30 crore
b. 40 crore
c. 250 crore
d. 500 crore

5. What is the amount of Risk Weighted Assets for Financial Guarantees (AA rated Co.)?

a. 4 crore
b. 108.56 crore
c. 120 crore
d. 944 crore

6. What is the amount of Risk Weighted Assets for Confirmed LC for Imports (AAA rated Co.)?

a. 4 crore
b. 108.56 crore
c. 120 crore
d. 944 crore

7. What is the amount of Total Risk Weighted Assets?

a. 4 crore
b. 108.56 crore
c. 120 crore
d. 944 crore

8. What is the amount of Capital Required?

a. 4 crore
b. 108.56 crore
c. 120 crore
d. 944 crore

Solution:

1. b
CCF for LC Retail Portfolio (AAA rated) = 20%
So, Adjusted Exposure = 1000*20% = 200 crore
So, RWA = 200 * 20% = 40 crore

2. c
CCF for Standby LC (As Financial Guarantee) (A rated Co.) = 100%
So, Adjusted Exposure = 500*100% = 500 crore
So, RWA = 500 * 50% = 250 crore

3. a
CCF for Standby LC –particular transaction (AA rated) = 50%
So, Adjusted Exposure = 200*50% = 100 crore
So, RWA = 100 * 30% = 30 crore

4. d
CCF for Performance Bonds & Bid bonds (Unrated) = 50%
So, Adjusted Exposure = 1000*50% = 500 crore
So, RWA = 500 * 100% = 500 crore

5. c
CCF for Financial Guarantees (AA rated) = 100%
So, Adjusted Exposure = 400*100% = 400 crore
So, RWA = 400 * 30% = 120 crore

6. a
CCF for Confirmed LC for Imports (AAA rated Co.) = 20%
So, Adjusted Exposure = 100*20% = 20 crore
So, RWA = 20 * 20% = 4 crore

7. d
Total RWAs = 40 + 250 + 30 + 500 + 120 + 4 = 944 crore

8. b
Capital Required = 944 * 11.5 % = 108.56 crore
....

ABC bank has the following exposure to Corporate sector secured by financial assets.

Party - A Ltd
Amount in Rs - 15.00 Cr
Maturity of exposure & collateral - 2
Collateral - Mutual Fund (AA)
Value of collateral - 15.00 Cr
Exposure Rating - AA

Party - B Ltd
Amount in Rs - 10.00 Cr
Maturity of exposure & collateral - 3
Collateral - Sovereign Bond
Value of collateral - 10.00 Cr
Exposure Rating - BBB

Party - C Ltd
Amount in Rs - 25.00 Cr
Maturity of exposure & collateral - 6
Collateral - Gold
Value of collateral - 26.00 Cr
Exposure Rating - A

1. Find out the credit risk weighted asset for A Ltd.

a. 0.18 Cr
b. 0.20 Cr

c. 0.50 Cr
d. 0.95 Cr

2. Find out the credit risk weighted asset for B Ltd.

a. 0.18 Cr
b. 0.20 Cr
c. 0.50 Cr
d. 0.95 Cr

3. Find out the credit risk weighted asset for C Ltd.

a. 0.18 Cr
b. 0.20 Cr
c. 0.50 Cr
d. 0.95 Cr

Answer:

Applying the credit risk mitigation formula:
E* = max {0, [E x (1 + He) - C x (1 - Hc - Hfx)]}
where:
E* = the exposure value after mitigation
E = current value of the exposure for which the collateral qualifies as a risk Mitigant
He = haircut appropriate to the exposure
C = the current value of the collateral received
Hc = haircut appropriate to the collateral
Hfx = haircut appropriate for currency mismatch between the collateral and exposure

1. a
Party - A Ltd
Exposure - 15.00
Rating of Exposure - AA
Risk Weight - 30%
Hair cut for exposure - 0
Collateral value - 15.00
Collateral - Mutual Fund(AA)
Maturity of collateral - 2
Hair cut for collateral - 4%

E* = max {0, [15 x (1 + 0) - 15 x (1 – 0.04 - 0)]}
= max of 0 or [0.60]
Means the collateral value after mitigation = 15 - 0.60
= 14.40

So the net exposure = 15 - 14.40 = 0.60
RWA = 0.60 x Risk weight of exposure which is 30%
= 0.18 Cr

2. b
Party - B Ltd
Exposure - 10.00
Rating of Exposure - BBB
Risk Weight - 100%
Hair cut for exposure - 0
Collateral value - 10.00
Collateral - Sovereign Bond
Maturity of collateral - 3
Hair cut for collateral - 2%

E* = max {0, [10 x (1 + 0) - 10 x (1 – 0.02 - 0)]}
= max of 0 or [0.20]
Means the collateral value after mitigation = 10 - 0.20 = 9.80
So the net exposure = 10 - 9.80
= 0.20
RWA = 0.20 x Risk weight of exposure which is 100%
= 0.20 Cr

3. d
Party - C Ltd
Exposure - 25.00
Rating of Exposure - A
Risk Weight - 50%
Hair cut for exposure - 0
Collateral value - 26.00
Collateral - Gold
Maturity of collateral - 6
Hair cut for collateral - 15%

E* = max {0, [25 x (1 + 0) - 26 x (1 – 0.15 - 0)]}
= max of 0 or [2.90]
Means the collateral value after mitigation = 26 - 2.90 = 23.10
So the net exposure = 25 - 23.10
= 1.90
RWA = 1.90 x Risk weight of exposure which is 50%
= 0.95 Cr
....

ABC Bank has a Repo transaction. The details of it has been given below.

Type of the Security - GOI security
Residual Maturity - 5 years
Coupon - 6%
Current Market Value - Rs.1050
Cash borrowed - Rs.1000
Modified Duration of the security - 4.5 years
Assumed frequency of margining - Daily
Haircut for security (adjusted for minimum holding period) - 1.4 %
Haircut on cash - Zero
Minimum holding period - 5 business days
Change in yield for computing the capital charge for general market risk - 0.7 % p.a.

1. Calculate Capital Charge for CCR

a. 0
b. 1.49
c. 33.07
d. 34.56

2. Calculate Capital Charge for credit risk

a. 0
b. 1.49
c. 33.07
d. 34.56

3. Calculate Capital Charge for market (specific) risk

a. 0
b. 1.49
c. 33.07
d. 34.56

4. Calculate Capital Charge for market (General) risk

a. 0
b. 1.49
c. 33.07
d. 34.56

5. Calculate Total capital required

a. 0
b. 1.49
c. 33.07
d. 34.56

Solution :

1. b
Capital Charge for CCR
1. Exposure - MV of the security = 1050.00
2. CCF for Exposure - 100 %
3. On-Balance Sheet Credit Equivalent - 1050 * 100 % = 1050.00
4. Haircut - 1.4 %
5. Exposure adjusted for haircut - 1050 * 1.014 = 1064.70
6. Collateral for the security lent - Cash = 1000.00
7. Haircut for exposure - 0 %
8. Collateral adjusted for haircut - 1000 * 1.00 = 1000.00
9. Net Exposure (5- 8) - 1064.70 - 1000 = 64.70
10. Risk weight (for a Scheduled CRAR complaint bank) - 20 %
11. Risk weighted assets for CCR (9 x 10) - 64.70 * 20 % = 12.94
12. Capital Charge for CCR (11 x 11.5 %) - 12.94 * 0.115 = 1.49

2. a
Capital for credit risk (if the security is held under HTM) = Zero (Being Govt. security)

3. a
Capital for market (specific) risk (if the security is held under AFS/HFT) = Zero (Being Govt. security)

4. c
Capital for market (General) risk = (Modified duration * Assumed yield change (%) * market value of security)
= 4.5 * 0.7% * 1050
= 33.07

5. d
Total capital required = (for CCR + credit risk + specific risk + general market risk)
= 1.49 + 0 + 0 + 33.07
= 34.56
....

Balance sheet of a bank provides the following information:

Fixed Assets - 800cr
Investment in central Govt Securities - Rs 8000cr

In standard loan accounts
Housing Loans - RS 4000cr (Secured, below Rs 10 lac)
the Retail loan - Rs 4000cr
Other loans - Rs 6000cr

sub-standard secured loans - Rs 800cr
sub-standard unsecured loans - Rs 400cr
Doubtful loans (D-1, secured) - Rs 600cr
Doubtful loans (D-1, unsecured) - Rs 400cr
Doubtful loans (D-2, secured) - Rs 400cr
Doubtful loans (D-2, unsecured) - Rs 800cr
Doubtful loans (D-3, secured) - Rs 800cr
Doubtful loans (D-3, unsecured) - Rs 400cr
Loss Assets - 50cr and
other assets - Rs 400cr

Answer the following questions, based on this information, by using standard Approach for credit risk.

1. What is the amount of RWAs for investment in govt securities?

a. Rs 4000cr
b. Rs 6000cr
c. Rs 8000cr
d. Nil

2. What is the amount of RWAs for sub-standard secured accounts?

a. Rs 200cr
b. Rs 400cr
c. Rs 600cr
d. Rs 1200cr

3. What is the amount of RWAs for sub-standard unsecured accounts?

a. Rs 200cr
b. Rs 400cr
c. Rs 600cr
d. Rs 1200cr

4. What is the amount of RWAs for doubtful (D-1, Secured) accounts?

a. Rs 200cr
b. Rs 400cr
c. Rs 600cr
d. Rs 1200cr

5. What is the amount of RWAs for doubtful (D-1, unSecured) accounts?

a. Rs 200cr
b. Rs 400cr
c. Rs 600cr
d. Rs 1200cr

6. What is the amount of RWAs for doubtful (D-2, Secured) accounts?

a. Rs 200cr
b. Rs 400cr
c. Rs 600cr
d. Rs 1200cr

7. What is the amount of RWAs for doubtful (D-2, unSecured) accounts?

a. Rs 200cr
b. Rs 400cr
c. Rs 600cr
d. Rs 1200cr

8. What is the amount of RWAs for doubtful (D-3, Secured) accounts?

a. Rs 200cr
b. Rs 400cr
c. Rs 600cr
d. Rs 1200cr

9. What is the amount of RWAs for doubtful (D-3, Secured) accounts?

a. Rs 200cr
b. Rs 400cr
c. Rs 600cr
d. Rs 1200cr

10. What is the amount of RWAs for retail loans?

a. 2000cr
b. 3000cr
c. 4000cr
d. 5000cr

11. What is the amount of RWAs for housing loans?

a. 2000cr
b. 3000cr
c. 4000cr
d. 5000cr

Solution :

1. d
RW against Govt Securities = 0 %

So, RWA
= 12000 x 0%
= 0 Cr

2. d
If the provision is less than 20 %, then RW is 150%
If the provision is 20-50 %, then RW is 100%
If the provision is more than 50 %, then RW is 50%

Provision in Sub-Standard Secured - 15 %, and so, RW = 150 %

So, RWA
= 800 x 150 %
= 1200 Cr

3. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in Sub-Standard Un-Secured - 25 %, and so, RW = 100 %

So, RWA
= 400 x 100 %
= 400 Cr

4. c
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-1, Secured) - 25 %, and so, RW = 100 %

So, RWA
= 600 x 100 %
= 600 Cr

5. a
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-1, unsecured) - 100 %, and so, RW = 50 %

So, RWA
= 400 x 50 %
= 200 Cr

6. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-2, Secured) - 40 %, and so, RW = 100 %

So, RWA
= 400 x 100 %
= 400 Cr

7. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-2, unsecured) - 100 %, and so, RW = 50 %

So, RWA
= 800 x 50 %
= 400 Cr

8. b
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-3, Secured) - 100 %, and so, RW = 50 %
So, RWA
= 800 x 50 %
= 400 Cr

9. a
If the provision is less than 20 %, then RW is 150%
If the provision is 20-49 %, then RW is 100%
If the provision is 50% or more, then RW is 50%

Provision in doubtful (D-3, unsecured) - 100 %, and so, RW = 50 %
So, RWA
= 400 x 50 %
= 200 Cr

10. b
RW on retail loans = 75 %

So, RWA
= 4000 x 75%
= 3000 Cr

11. a
RW on housing loans = 50 %

So, RWA
= 4000 x 50%
= 2000 Cr
....

To calculate capital adequacy ratio, the banks are to take into account, which of the following risk?

a. credit risk and operational risk only
b. credit risk and market risk only
c. market risk and operational risk only
d. credit risk, market risk and operational risk

Ans - d
....

Answer the following questions, based on the below given information

1st year (Rs. In crores)
Net profits - 420.00
Provisions - 600.00
Staff expenses - 740.00
Other operating expenses - 840.00
Other income - 520.00

2nd year (Rs. In crores)
Net profits - 520.00
Provisions - 680.00
Staff expenses - 820.00
Other operating expenses - 980.00
Other income - 600.00

1. What is the amount of capital charge for operational risk, on the basis of 1st year results alone as per Basic indicator approach?

a. 350 cr
b. 390 cr
c. 420 cr
d. 450 cr

Ans – b

2. What is the amount of capital charge for operational risk, on the basis of 2rd year results alone as per Basic indicator approach?

a. 350 cr
b. 390 cr
c. 420 cr
d. 450 cr

Ans – d

3. What is the amount of capital charge for operational risk, on the basis of 1st and 2nd year results as per Basic indicator approach?

a. 350 cr
b. 390 cr
c. 420 cr
d. 450 cr

Ans – c

4. What is the amount of risk weighted assets for operational risks in India as per Basel III recommendations, on the basis of 1st year results alone?

a. 3063 cr
b. 3391 cr
c. 3652 cr
d. 3913 cr

Ans – b

5. What is the amount of risk weighted assets for operational risks in India as per Basel III recommendations, on the basis of 2nd year results alone?

a. 3063 cr
b. 3391 cr
c. 3652 cr
d. 3913 cr

Ans – d

6. What is the amount of risk weighted assets for operational risks in India as per Basel III recommendations, on the basis of 1st year and 2nd year results?

a. 3063 cr
b. 3391 cr
c. 3652 cr
d. 3913 cr

Ans - c

Explanations:

1. Capital charge = Gross income X 15%
Gross income = net profit + provisions + staff expenses + other operating expenses.
= 420 + 600 + 740 + 840 = 2600 cr
Capital charge = 2600 x 15% = 390 cr

2. Capital charge = Gross income X 15%
Gross income = net profit+ provisions + staff expenses + other operating expenses
= 520 + 680 + 820 + 980 = 3000 cr
Capital Charge = 3000 x 15% = 450cr

3. Capital charge Gross income X l5%.
Gross income for 1st year = 2600 cr
Gross income for 2nd year = 3000 cr
Average gross income = (2600 + 3000) / 2 = 2800 cr
Capital charge = 2800 x 15% = 420 cr

4. Capital charge / 11.5 % = 390 / 11.5 % = Rs. 3391 cr

5. Capital charge / 11.5 % = 450 / 11.5 % = Rs. 3913 cr

6. Capital charge / 11.5 % = 420 / 11.5 % = Rs. 3652 cr
....

The conditions for calculating value at risk are ...... (i) Volatility of price, (ii) Correlation of prices with respect of all other Assets/Liabilities in the portfolio, (iii) Normal circumstances means that the value at risk can not be measured when market is under abnormal conditions

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)
Ans - d
....

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

Ans - a
....

As per Basel III, the value of revaluation reserve is to be taken at ...... % discount to include in Tier 2 capital

a. 60
b. 55
c. 50
d. 45

Ans - b
....

What is the Off Balance Sheet Risk? (i) It is contingent in nature, (ii) It can occur on account of issue of guarantees committed credit lines and issue of letter of credit, (iii) Bank's commitment may happen on account of failure to meet, payment obligations

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

For market risk, the minimum capital requirement is expressed in terms of two separately calculated charges which are ......

a. specific risk and general market risk
b. special risk and general risk
c. liquidity risk and liquidation risk
d. counterparty credit risk and trading partner's risk

Ans - a

....

The capital requirement for general market risk is designed under Basel III to capture the risk of loss arising from change in ......

a. prices of securities
b. market value securities
c. interest rate on securities
d. all the above

Ans - c

....

The capital charge for specific risk under market risk will be ...... % or capital charge in accordance with the risk warranted by external rating of the counterparty, whichever is higher, under Basel III?

a. 9.00
b. 9.75
c. 10.50
d. 11.25

Ans - d

....

The Regulations on Risk management at international level have been taken up by ...... (i) World Bank, (ii) Basel Committee on Banking supervision

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - b
....

Anatol Bank manages a portfolio of bonds. It actively trades, seeking to enhance the portfolio's profitability. Which of the following is Anatol Bank most obviously exposed to?

a. Market risk
b. Operational risk
c. Technology risk
d. Insolvency risk

Ans - a
....

The variability of the rate of return on a security depends on ......

a. uncertainty common to the entire market
b. uncertainty due to firm specific factors
c. Both a and b above
d. None of the above answers is correct

Ans - c
....

The security characteristic line is ......

a. the trend line representing the security's tendency to advance or decline in the market over some period of time
b. the "best fit" line representing the regression of the security's excess returns on market excess returns over some period of time
c. another term for the capital allocation line representing the set of complete portfolios that can be constructed by combining the security with T-bill holdings
d. None of the above

Ans - b
....

The market value weighted average beta of firms included in the market index will always be ......

a. 0
b. between 0 and 1
c. 1
d. There is no particular rule concerning the average beta of firms included in the market index

Ans - c

....

Credit risk that is related to pervasive, economy-wide factors, would be termed ......

a. off balance sheet risk
b. country risk
c. systematic risk
d. firm specific risk

Ans - c

....

Suppose a bank is holding a portfolio of long-maturity assets, and has financed it with short-maturity liabilities. Which of the following risks is most obvious?

a. Refinancing risk
b. Operational risk
c. Default risk
d. Liquidity risk

Ans - a

....

A Transaction Risk is ...... (i) Risk arising from fraud either internal or external, (ii) It may be on account of failed Business processes, (iii) When a Business is not able to maintain the continuity, it is known as Transaction Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

The capital charge for general market risk under the market risk will be ...... % on gross equity position, under Basel III

a. 9.00
b. 9.75
c. 10.50
d. 11.25

Ans - a
....

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

Ans - d
....

The modus operandies of Basic committee on Banking supervision are ...... (i) It is instrumental in standardizing bank regulations across jurisdictions, (ii) It defines the role of regulations, (iii) The committee meets 4 times in the year

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The risk of adverse variance of the mark to market value of change in market prices of interest rate instruments, equities, is called ...... (i) Price Risk, (ii) Market Risk, (iii) Translation Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - a
....

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 Risk

Ans - c

....

Basel Committee on Banking supervision works under ......

a. ADB
b. Bank for International Settlement
c. World Bank
d. International Finance Corporation

Ans - b

....

When was the Basel accord took place in post deregulation era?

a. 1988
b. 1991
c. 1975
d. 1972

Ans - a

....

The significance of integrated Risk management is ...... (i) It integrates organizations internal and external business processes, (ii) It applies Standard Risk Terminology, (iii) It facilitates reporting which helps in taking optional Risk decisions

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

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

Ans - a
....

The features of integrated approach for Risk management are ...... (i) The process of supervising risk exposure gets centralized, (ii) Organization can decide how best to transfer Risk, (iii) It is an ongoing Business process

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - a
....

The Business challenges to manage integrated Risk are ...... (ia. Globalization of market, (ii) Concern about business continuity and operational reliability, (iii) Fast technological changes

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the following are limitations in identifying the issues in integrated Risk management? (i) Cultural limitations, (ii) Business unit boundaries

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d

....

What is the utility of integrated Risk management for a Bank? (i) It helps a Bank to relate capital reserves more effectively, (ii) It helps in quantifying the amount of capital required to absorb unexpected losses, (iii) It contributes to better business performance

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Risk Adjusted Rate of capital can be determined ...... (i) By dividing a unit's net income by its economic capital, (ii) It can be achieved by producing a profitability which is common across the Business units

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - a

....

The Risk Adjusted Rate of capital can also be used to ...... (i) Evaluate pricing decisions, (ii) Product profitability, (iii) Differential between relationships that makes money for an institution and for those do not

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

The integrated Risk management process consists of ...... (i) Integration of Risk management strategy, (ii) Assigning Accountability to the concerned executive, (iii) Development of Risk management system

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - b
....

Which of the following impacts regulatory framework has on Risk management of Banks? (i) It devices constraints and guidelines which promote Risk management practices, (ii) The regulations stimulates development, (iii) It also enhances the Risk management process of Banks

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The capital charge (CAR) for open foreign exchange positions and open gold positions, under Basel HI, for market risk is ...... %

a. 6
b. 7
c. 8
d. 9

Ans - d
....

Under Basel III, the risk weight for open foreign currency and open gold position is ...... %

a. 50
b. 75
c. 100
d. 125

Ans - c
....

The aggregate capital charge for market risk is the sum total of capital charge for ...... (1) interest rate (2) equity investment (3) forex and gold open positions

a. 1 to 3 all
b. 1 and 3 only
c. 1 and 2 only
d. 2 and 3 only

Ans - a
....

A bank is having one day value at risk of Rs. 10 crore with 99 per cent confidence level. What does it signify? (i) There is only one change in 100 that daily loss will more than 100 core under normal trading conditions, (ii) There is one percent chance that the daily loss may exceed Rs. 10 crore, (iii) It does not estimate losses in abnormal situations

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - a
....

As per Basel III, adjustments / deductions are required to be made from Tier I and Tier 2 capital, relating to which of the following (i) goodwill and other intangible assets (ii) deferred tax assets (iii) Investment in own shares (treasury stock)

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

The process of integrated Risk limits will be helpful in ...... (i) Communication Risk appetite in the organization, (ii) Maintenance of overall exposure at acceptable level, (iii) Affecting delegation of authority

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

1988 Capital Accord Framework accounted for ...... (i) Credit Risk, (ii) Market Risk, (iii) Defined capital component

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

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.

Ans - b

....

The features of the value at Risk are ...... (i) It measures potential loss in market value of a portfolio, (ii) It uses estimated volatility and correlations with a given horizon, (iii) It is measured with a given confidence interval

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Basel III, the risk of loss resultingfrom inadequate or failed internal processes, people and systems or from external events is called ......

a. credit risk
b. operational risk
c. market risk
d. reputation risk

Ans - b
....

Under Pillar-2 of Basel III, the banks are required to have a Board approved ICAAP and assess capital accordingly. ICAAP stands for ......

a. Internal Capital Adequacy Assessment Procedure
b. Internal Capital Approval Assessment Process
c. Internal Capital Adequacy Assessment Process
d. Internal Capital Assessment Approved Process

Ans - c
....

Derivative Risks are Off Balance Sheet and include the following ...... (i) Swaps, (ii) Futures, (iii) Forward contracts

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The impact of Basel II recommendations on integrated Risk management would be ...... (i) Significant reduction in capital requirement, (ii) Lower capital charges, (iii) Compliance with expected standards of identifying measuring and controlling Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - a
....

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

Ans - d
....

A general approach for estimating the level of operational Risk can be based on ...... (i) Estimated profitability of concurrence, (ii) Estimated potential financial impact, (iii) Estimated impact of internal controls

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

A proper management of operational Risk would result in ...... (i) Lesser Risk Capital, (ii) Competitive edge

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - c
....

What is the Beta factor for corporate finance under standardized approach?

a. 15 percent
b. 18 percent
c. 12 percent
d. 10 percent

Ans - b
....

What kinds of Risks Off Balance Sheet exposure may have? (i) Liquidity Risk, (ii) Interest Risk, (iii) Market Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - a
....

The features of Interest Rate Risk are ...... (i) It is an exposure of Bank's financial condition to adverse movements in interest rates, (ii) It has direct effect on Net Interest Margin, (iii) It may also affect the market value of Equity

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the followings is not Operational Risk?

a. Fraud Risk
b. Adverse movement in Foreign Exchange Risk
c. Communication Risk
d. Documentation Risk

Ans - b
....

As per Basel III requirements, modified by RBI during Sept 2014, banks can issue Tier 2 capital instruments with a minimum original maturity of at least ...... years

a. two years
b. three years
c. five years
d. ten years

Ans - c
....

Which of the followings is correct regarding Business Line Beta Factors? (i) Retail Banking and Asset Management 12%, (ii) Retail Brokerage 12%, (iii) Commercial Banking 15%

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

As per Basel III the investment of a bank in the capital of a banking or financial or insurance entity is restricted to which of the following: (i) 10% of capital funds (after deductions) of the investing bank, (ii) 5% of the investee bank's equity capital, (iii) 30% of paid up capital and reserves of the bank or 30% of paid up capital of the company, whichever is lower

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The steps involved in operating profiling are ...... (i) Identification and quantification of operational Risks, (ii) Identification of Risk concentration, (iii) Formulation of Bank's strategy for operational Risk management

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Simplified Standardised Approach (SSA), risk weight for corporates is prescribed as ......

a. 150%
b. 100%
c. 50%
d. 20%

Ans - b
....

Which of the 'following better explains the meaning of risk?

a. loss arising on happening of some event
b. loss arising on non-happening of some event
c. probability of loss that could arise due to uncertainty
d. probability of risk that could arise due to uncertainty

Ans - c
....

Which of the following is correct regarding integrated Risk? (i) Risks add to instability, (ii) Higher the Risk more is instability, (iii) Risk adjusted returns on capital assumes importance in integrated Risk management

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

As per Basel III, adjustments / deductions are required to be made from Tier I and Tier 2 capital, relating to which of the following? (1) goodwill and other intangible assets (2) deferred tax assets (3) Investment in own shares (treasury stock) (4) investment in capital of banking, financial or insurance entities

a. 1 to 4 all
b. 1 and 2 only
c. 1 and 3 only
d. 1 only

Ans - a

....

As per Basel III, the investment of a bank in the capital of a banking or financial or insurance entity is restricted to which of the following? (i) 10% of capital funds (after deductions) of the investing bank, (ii) 5% of the investee bank's equity capital, (iii) 30% of paid up capital and reserves of the bank or 30%, of paid up capital of the company, whichever is lower

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

The significance of contingent liability is ...... (i) It adds to the Revenue generation of the Bank, (ii) Banks may also have Contingencies Receivables, (iii) 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

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)

d. (i), (ii) and (iii)

Ans - d

....

Basel-II accord rests on three pillars. The second pillar of the accord is ......

a. Market Discipline
b. Risk Management
c. Supervisory review process
d. Operational risk management

Ans - c

....

For Substandard Secured Assets, the provision required is ...... of the outstanding amount.

a. 15%
b. 20%
c. 10% of the realizable value of security (RVS)
d. None of these

Ans - a

....

As per Basel II, Risk weighted assets for Operational risk are worked out as :

a. Capital for operational risk x 9
b. Capital for operational risk x 12.5
c. Capital for operation risk x 8.33
d. Capital for operational risk x 8

Ans - b

....

In the mid-2000s, a number of banks lost billions of dollars on failing mortgage loans. The risk of such occurrences would be categorized as ......

a. off balance sheet risk
b. operational risk
c. credit risk
d. technology risk

Ans – c

Under Basel III the risk weight for capital charge for credit risk on the basis of standardized approach, match for claims on foreign governments (based on rating of international rating agencies such as S & P, Fitch, Moody's Rating), in respect of which of the following: (i) AAA to AA rating—0%, (ii) BBB rating—20% (iii) Below B rating—150%

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - b
....

In 2007, it was discovered that millions of credit card numbers had been stolen from TJX Company, due to a breach in computer network security. This episode provides an example of ......

a. credit risk
b. operational risk
c. sovereign risk
d. interest rate risk

Ans - b
....

Risk arises from trading of assets because of change in asset prices and exchange rates is classified as ......

a. asset risk
b. trade risk
c. market risk
d. exchange risk

Ans - C
....

The systematic risk of a security ......

a. is likely to be higher in a rising market
b. results from its own unique factors
c. depends upon market volatility
d. cannot be diversified away

Ans - d
....

Consider the single factor APT. Portfolio A has a beta of 0.2 and an expected return of 13%. Portfolio B has a beta of 0.4 and an expected return of 15%. The risk-free rate of return is 10%. If you wanted to take advantage of an arbitrage opportunity, you should take a short position in portfolio ...... and a long position in portfolio ......

a. A, A
b. A, B
c. B, A
d. B, B

Ans - c
....

Bank-X's outstanding loans all have fixed interest rates, with maturities in excess of two years. The bank's deposit liabilities all have maturities of no more than six months. Bank-X most obviously is facing ......

a. Credit risk
b. Insolvency risk
c. Liquidity risk
d. Interest rate risk

Ans - d
....

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

Ans - a
....

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

Ans - c
....

The key driver in managing a business is seeking enhancement in ...... (i) Return on investment, (ii) Risk Management capability, (iii) Risk adjusted return on capital

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the following is / are characteristics of the assets held in Trading Book? (i) They are normally not held until maturity, (ii) They are normally held until maturity and accrual system of accounting is applied, (iii) Mark to market system is followed

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - b
....

Which of the following statements is correct? (i) Contingency exposure may become fund based exposure, (ii) It can be a part of Banking Trading Book, (iii) It may include credit Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

As per Basel III, the value of revaluation reserve is to be taken at ...... % discount to include in Tier 2 capital

a. 60%
b. 55%
c. 50%
d. 45%

Ans - b
....

Which of the following statements is correct? (i) The funding Risk may arise from the need to replace net outflows due to unanticipated withdrawals of deposit, (ii) Time risk arises when performing Assets turn into non-performing Assets, (iii) Call Risk arises due to crystallization of contingent liabilities

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The net stable funding ratio (NSFR) under Basel-III will be implemented in India from ......

a 01.01.2017
b 01.04.2017
c 01.01.2018
d 01.04.2018

Ans - c
....

Which of the followings is relevant for estimation of level of operational Risk? (i) Probability of occurrence, (ii) Potential financial impact, (iii) Impact of internal controls

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the following is relevant to integrated Risk? (i) Total Risks of an organization are also the net effect of all Risks associated with an organization, (ii) Net effect of all Risks may not be the same due to diversification effect of Risks, (iii) Integrated Risk implies coordinated approach across various Risks

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match in respect of which of the following?

a. Fund & non-fund based claims on Central Govt - 0%
b. Fund and non-fund based Central Govt. guaranteed claims — 0%
c. Fund and non-fund based State Govt. guaranteed claims - 0%
d. Fund and non-fund based claims on State Govt - 0%

Ans - c
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match in respect of which of the following?

a. Claims on RBI or DICGC - 0%
b. Claims on Credit Guarantee Fund Trust for MSE — 0%
c. Claims on Credit RiskGuarantee Fund Trust for Low Income Housing — 0%
d. Claims on ECGC — 0%.

Ans - d
....

The consequences of Credit Risk are ...... (i) When Rating of a financial instruments is lowered, the spread over the Risk Free Rate increases, (ii) The price of the instruments is declined, (iii) Where a default in payment of either the principal or interest occurs, market price of financial instruments deteriorates

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

What is the time limit for Loan reviews of high value accounts are usually to carried out?

a. Before sanction of credit
b. Within one year of sanction
c. Within three months of sanction
d. Within six months of sanction

Ans - c
....

Liquidity is ensured by grouping assets and liabilities based on their ......

a. Pricing
b. Maturity
c. Risk Weight
d. None of the above

Ans - b
....

The fact that a bank's assets tend to be long-term while its liabilities are short term creates the following situation when interest rates rise?

a. The value of assets increases by more than the value of liabilities
b. The value of assets will decrease by more than the value of liabilities
c. The value of assets increases and the value of liabilities decreases
d. The value of assets decreases and the value of liabilities increases

Ans - b
....

What are the basic parameters required for stabilising ALM of Banks?

a. Net Interest Income
b. Net Interest Margin
c. Economic Equity Ratio
d. All these

Ans - c
....

What are the features of Net Interest Income?

a. It is a tool for measuring the impact of volatility on the short term profit
b. This indicates difference between interest income and interest
c. Short term profits can be stabilised by minimising fluctuations in Net Interest Income
d. All the above

Ans - d
....

What are indicators that borrower might default?

a. Increase Credit spread risk

b. downgrade of credit Rating
c. Both a and b
d. None of these

Ans - b
....

Say Mr. X takes a position in stock 'A' By purchasing 1,000 shares at Rs. 650 per share. The price is expected to fluctuate 3% daily (daily volatility figure estimated from past data). He estimates daily potential loss to be Rs. 42,500 approximately. He intends to reduce the risk by 60% using stock futures. His strategy would be to ......

a. Buy 600 stock futures
b. Sell 600 stock futures
c. Buy 400 stock futures
d. Sell 400 stock futures

Ans - b
....

A 5 year 9% semi - annual bond @ market yield of 7.50% with present market price of Rs. 107 is sought to be hedged using IRS. You would take ......

a. A short position on variable interest rate
b. A long position on variable interest rate
c. A long position on fixed interest rate
d. None of These

Ans - b
....

The model that combines five financial ratios using reported accounting information and equity values to produce on objective measure of borrower'sfinancial health is ......

a. Altman's Z score
b. 'Credit Metrics'
c. Credit Risk +
d. None of these

Ans - d
....

Collateralized loan obligations (CLOs) are securitized pools of ......

a. Debt obligation
b. Commercial loans
c. Housing Loans
d. Government bonds

Ans - b
....

Type of risk in which payments are interrupted by intervention of foreign governments is considered as ......

a. channel risk
b. globalization risk
c. state risk
d. country risk

Ans - D
....

The portion of a security's average return that is not explained by market risk is usually called ......

a. alpha
b. beta
c. epsilon
d. None of the above

Ans - a
....

The difference between a security's actual return and the return predicted by the characteristic line associated with the security's past returns is ......

a. alpha
b. beta
c. gamma
d. residual

Ans - d
....

Balance sheet of a bank provides the following information:

Total advances Rs 100000cr, Gross NPA 12% and Net NPA 6%, Based on this information, answer the following questions?

1. What is the amount of gross NPA?

a. Rs 6000cr
b. Rs 8000cr
c. Rs 10000cr
d. Rs 12000cr

2. What is the amount of net NPA?

a. Rs 6000cr
b. Rs 8000cr
c. Rs 10000cr
d. Rs 12000cr

3. What is the amount of provision for standard loans, if all the standard loan account represent general advance?

a. Rs 300cr
b. Rs 352cr
c. Rs 384cr
d. Rs 392cr

4. What is the provision on NPA accounts?

a. Rs 6000cr
b. RS 6352cr
c. Rs 8400cr
d. Rs 8452cr

5. What is the total amount of provisions on total advances, including the standard accounts?

a. Rs 6000cr
b. RS 6352cr
c. Rs 8400cr
d. Rs 8452cr

6. What is the minimum amount of provision to be maintained to meet the PCR of 70%?

a. Rs 6000cr

b. RS 6352cr
c. Rs 8400cr
d. Rs 8452cr

7. What is the amount of provision for standard loans, if all the standard loan account represent direct advances to agricultural?

a. Rs 220cr
b. Rs 440cr
c. Rs 660cr
d. Rs 880cr

8. What is the amount of provision for standard loans, if all the standard loan account represent advances to SMEs sectors?

a. Rs 220cr
b. Rs 440cr
c. Rs 660cr
d. Rs 880cr

9. What is the amount of provision for standard loans, if all the standard loan account represent advances to CRE sectors?

a. Rs 220cr
b. Rs 440cr
c. Rs 660cr
d. Rs 880cr

10. What is the amount of provision for standard loans, if all the standard loan account represent advances to CRE-RH sectors?

a. Rs 220cr
b. Rs 440cr
c. Rs 660cr
d. Rs 880cr

Solution :

1. d
Gross NPA
= 100000 x 12 %
= 12000 Cr

2. a
Net NPA
= 100000 x 6 %
= 6000 Cr

3. b
Standard Accounts
= Total advances - Gross NPA
= 100000 - (100000 x 12%)
= 100000 - 12000
= 88000

Provision for standard loans (general advance)
= 0.4%
= 88000 x 0.4%
= 352 Cr

4. a
Provision of NPA
= (Gross NPA - Net NPA) x Total Advances
= (12% - 6%) x 100000
= 6% x 100000
= 6000 Cr

5. b
Provision on Total Advances
= Provision of NPA + Provision for standard loans
= 6000 + 352
= 6352 Cr

6. c
Minimum amount of provision to be maintained to meet the PCR of 70%
= Gross NPA x PCR
= 12000 x 70%
= 8400 Cr

7. a
Standard Accounts
= Total advances - Gross NPA
= 100000 - (100000 x 12%)
= 100000 - 12000
= 88000

Provision for standard loans (direct advances to agricultural)

= 0.25%
= 88000 x 0.25%
= 220 Cr

8. a
Standard Accounts
= Total advances - Gross NPA
= 100000 - (100000 x 12%)
= 100000 - 12000
= 88000

Provision for standard loans (SMEs Sector)
= 0.25%
= 88000 x 0.25%
= 220 Cr

9. d
Standard Accounts
= Total advances - Gross NPA
= 100000 - (100000 x 12%)
= 100000 - 12000
= 88000

Provision for standard loans (Commercial Real Estate (CRE) Sector)
= 1%
= 88000 x 1%
= 880 Cr

10. c
Standard Accounts
= Total advances - Gross NPA
= 100000 - (100000 x 12%)
= 100000 - 12000
= 88000

Provision for standard loans (Commercial Real Estate (CRE) Sector)
= 0.75%
= 88000 x 0.75%
= 660 Cr

SME - Small and Micro Enterprises
CRE - Commercial Real Estate (CRE) Sector
CRE - RH - Commercial Real Estate – Residential Housing Sector (CRE - RH)
....

If the volatility per annum is 25% and the number of trading days per annum is 252, find the volatility per day.

a. 1.58%
b. 15.8%
c. 158%
d. 0.10

Solution:
Daily volatility of security = A
Total trading days is always to required to be taken at 252, and formula is
A = 25 x52 = 1.58%
....

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

a. 3%
b. 10%
c. 1%
d. 4%

Solutions:
Wherein trading days has not been given then we have to assume it as 260 days in a year. Accordingly,
16 days volatility = 'X'
Daily volatility = 1% or 0.01
So formula will be : 0.01 = X
0.01 = X 0.2480
0.01/0.2480 = X
OR X = 0.040
i.e X = 4%
....

If daily volatility of a Security is 2%, how much will be monthly volatility?

a. 1.90%
b. 6.95%
c. 10.95%
d. 13.95%

Ans - c

Solution :
Monthly volatility = Daily Volatility * ∫30 = 2*∫30 = 2*5.477 = 10.95%
....

If per annum volatility is 30% and nos. of trading days per annum be 250, how much will be daily volatility?

a. 1.90%
b. 6.95%
c. 10.95%
d. 13.95%

Ans - a

Solution "
Annual Volatility = Daily Volatility * ∫250 = Daily Volatility * 15.81
30 = Daily Volatility * 15.81
Daily volatility = 30/15.81 = 1.90%
....

If 1 day VaR of a portfolio is Rs. 50000/- with 97% confidence level. In a period of 1 year of 300 trading days, how many times the loss on the portfolio may exceed Rs. 50000/-.

a. 9 days
b. 15 days
c. 25 days
d. 30 days

Ans - a

Solution :
97% confidence level means loss may exceed the given level (50000)on 3 days out of 100.
If out of 100 days loss exceeds the given level on days =3
Then out of 300 days, loss exceeds the given level = 3/100*300 = 9 days
....

Risk that is associated with inability/failure of banks in payment of amount representing clearing cheques presented by different banks ......

a. liquidity risk
b. settlement risk
c. credit risk
d. legal risk

Ans - b
....

A 5 year 5% Bond has a BPV of Rs. 50/-, how much the bond will gain or lose due to increase in the yield of bond by 2 bps?

a. Loss of value by 50
b. Loss of value by 100
c. Gain of value by 50
d. Gain of value by 100

Ans - b

Solution :
Increase in yield will affect the bond adversely and the bond will lose.
Since BPV of the bond is Rs. 50/-. Increase in yield by 2 bps will result into loss of value of Bond by 50*2=100
....

1 day VaR of a portfolio is Rs. 50000/- with 90% confidence level. In a period of 1 year (250 days) how many times the loss on the portfolio may exceed Rs.50000/-?

a. 9 days
b. 15 days
c. 25 days
d. 30 days

Ans - c

Solution
90% confidence level means on 10 days out of 100, the loss will be more than Rs. 50000/-.
Out of 250 days, loss will be more than 50000/- on 25 days. It means, out of 250 days, loss will not exceed on 225 days.
....

The banks in India are required to compute Basel III capital ratios in the following manner ...... (1) Common equity Tier I capital ratio (2) Tier I capital ratio (3) Tier 2 capital ratio (4) Total capital to risk weighted asset ratio

a. 1 to 4 all
b. 1,2 and 4 only
c. 1,3 and 4 only
d. 1 and 4 only

Ans - b
....

A 10 year 12% semi - annual bond @ market yield of 8.520% has a price of Rs. 116.16, which rises to Rs. 117.45 at a yield of 8.320%. What is the BPV of the bond?

a. Rs. 64.5 per Rs. 1,000 of book value
b. Rs. 6.40 per Rs. 1,000 of book value
c. Rs. 0.64 per Rs. 1,000 of book value.
d. None of These

Ans - a

Solution :

BPV is Change in price (market value) by 1 basis point change in yield (market)
Here change in price is
= 117.45 - 116.16
= 1.29
And change in yield
= 8.520 - 8.320
= 0.20
So one basis point change in yield = 0.20 divided by 20
= 0.01 %
So as we divide price change also by 20
= 1.29 / 20
= 0.0645

That 0.0645 BPV face (book) value of 1000
= Rs. 64.5 at book value at 1000
....

A bank's treasury portfolio is worth Rs. 9,500 Crs. Its 10 day VaR at 90% confidence level is Rs. 265 Crs. What is its weekly VaR at 90% confidence interval? (Assume 5 working days in a week)

a. Rs. 132.50 Crs
b. Rs. 187.41 Crs
c. Rs. 196.38 Crs
d. None of These

Ans - b

Solution :

10 days VaR =
1day VaR × squre root of 10
265 = 1day VaR × suare root of 10

1day Var = 265 / suare root of 10
5 day VaR =
(265/square root of 10) × suare root of 5
= 265 × square root of 5/suare root of 10
= 265 / square root of 2
= 265 / 1.414
= 187.4115
....

Bond A is a 7-year, 8% coupon bond. It has duration of 4.2 and a current yield of 6.6%. If the yield were to suddenly decrease to 6.1%, approximately what will be the percentage price change for this bond?

a. Price increases by 4.2%
b. Piice decreases by 4.2%
c. Price increases by 2.1%
d. Price decreases by 2.1%

Ans - c

Solution :

Increase in price of bond Will decrease current yield
Price Is Inversely propotionate to yield
% change in price = - modified duration × yield change
= - 4.2 × (- 0.5)
= 2.1
....

The beta, of a security is equal to ......

a. the covariance between the security and market returns divided by the variance of the market's returns
b. the covariance between the security and market returns divided by the standard deviation of the market's returns
c. the variance of the security's returns divided by the covariance between the security and market returns
d. the variance of the security's returns divided by the variance of the market's returns

Ans - a
....

Suppose that machinery used by Bank-Twenty for sorting and clearing checks breaks down. This is a manifestation of ......

a. Credit risk
b. Insolvency risk
c. Operational risk
d. Liquidity risk

Ans - c

....

A portfolio manager who diversifies his/her portfolio can reduce which of the following?

a. Technology risk
b. Systematic risk
c. Firm specific risk
d. Off balance sheet risk

Ans - c

....

What is sensitivity? (i) It indicates deviation of market price due to unit movement of a single market parameter, (ii) If the liquidity in the market increases it would result in increased demand, (iii) The increased demand may increase market price

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match for claims on foreign governments (based on rating of international rating agencies such as S & P, Fitch, Moody's Rating), in respect of which of the following?

a. AAA to AA rating — 0%
b. BBB rating — 20%
c. Below B rating — 150%
d. unrated — 100%

Ans - b

....

Which of the following statements is/are correct? (i) Where Bank provides payment they are known as contingencies given, (ii) Off Balance Sheet exposure may not have Interest Risk, (iii) Where Bank is the Beneficiary, it is known as receivable contingencies

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - b
....

The feature of liquidity risk are ...... (i) It may arise from funding of long term assets by short term liabilities, (ii) The liabilities are subject to Refinance Risk, (iii) Funding liquidity is inability to obtain funds to meet cash flow obligations

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match for claims on foreign public sector enterprises (based on rating of S & P, Fitch, Moody's Rating), in respect of which of the following?

a. AAA to AA rating—20%
b. A rating—20%
c. BBB to BB rating—100%
d. unrated—100%.

Ans - b
....

Trading book is mainly exposed to ...... (i) Market Risk, (ii) Market Liquidity Risk, (iii) Credit Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

Under Basel III, what is the risk weight for capital charge for credit risk on the basis of standardized approach, for claims on Bank for International Settlements, International Monetary Fund, Multi lateral Development Banks?

a. 0 percent
b. 10 percent
c. 20 percent
d. 50 percent

Ans - c

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

Ans - c

Basic Indicator Approach (BIA) is one of the methods for computation of capital charge for:

a. Interest rate risk
b. Market risk
c. Operational risk
d. Credit risk

Ans - c

Estimated impact of internal control depends on ...... (i) Historical effectiveness of internal controls, (ii) Estimated impact of internal controls on Risks, (iii) The above is estimated as fraction in relation to total control which is valued at 100%

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

For standard assets, the provision required is ...... of the outstanding amount.

a. 0.10%
b. 0.20%
c. 0.40%
d. 0.25%

Ans - c
....

As per Basel III, general provisions and loss reserves are included in Tier-2 capital maximum to the extent of:

a. 1.25% of total risk weighted assets under standardized approach and 0.6% of total risk weighted assets under IRB approach
b. 0.6% of total risk weighted assets under standardized approach and 0.6% of total risk weighted assets under IRB approach
c. 0.6% of total risk weighted assets under standardized approach and 1.25% of total risk weighted assets under IRB approach
d. 1.25% of total risk weighted assets under standardized approach and 1.25% of total risk weighted assets under IRB approach

Ans - a
....

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

Ans - a
....

In a Bank integrated Risk includes ...... (i) Liquidity Risk, (ii) Interest Rate Risk, (iii) Market and Credit Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Basel III, the risk weight is ...... % for capital charge for credit risk on the basis of standardized approach, for claims on banks incorporated in India and foreign bank branches in India, where they meet the level of common equity Tier I capital and applicable CCB

a. 0
b. 10
c. 20
d. 50

Ans - c
....

Risk in trading securities may arise from the following activities ...... (i) Foreign exchange transactions, (ii) Equity holding, (iii) Lending and Repos

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the followings is not an agency service of the Bank?

a. Extending credit cards
b. Escrow
c. Depository Receipts
d. Securities fending

Ans - a
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for long term loans, does not match for claims on domestic corporates, AFC and NBFC-IFC (based on rating of internal rating agencies such as CRISIL, CARE, ICRA etc.), in respect of which of the following?

a. AAA rating—20%
b. A rating—50%
c. BBB—100%
d. unrated—150%

Ans - d
....

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

Ans - b
…………………………………….

Which of the followings Market Risk Management Division does not consist? (i) Risk Management Committee, (ii) Asset Liability Management Committee, (iii) The Asset Liability Management Support Group

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
…………………………………….

Which of the following are the responsibilities of Risk Management Committee? (i) Deciding prudential limits, (ii) Evaluating Risk measurement models, (iii) Setting guidelines for market risk management

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
…………………………………….

Under Basel III, the risk weight is ...... % for capital charge for credit risk on the basis of standardized approach, for claims included in regulatory retail portfolio?

a. 20
b. 50
c. 75
d. 100

Ans - c
…………………………………….

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for short term loans, does not match for claims on domestic corporates, AFC and NBFC-IFC (based on rating of internal rating agencies such as CRISIL, CARE, ICRA etc.), in respect of which of the following?

a. Al+ - 20%
b. A2 — 50%
c. A3 — 75%
d. A4 —150%

Ans - c

Scenario analysis should be used ...... (i) To assess the impact of deviations from the correlation assumptions, (ii) To evaluate potential losses arising from multiple simultaneous operational Risk loss events

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d

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

Ans - a

The banking book is generally exposed to ...... (i) liquidity risk, (ii) interest rate risk, (iii) credit risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

As per Basel III, which of the following is part of operational risk?

a. legal risk
b. reputational risk
c. strategic risk
d. all the above

Ans - a
....

Under Basel III, by using the Basic Indicator Approach, banks must hold capital for operational risk equal to the ...... average over the previous years of a fixed percentage (denoted as alpha. of positive annual gross income

a. 2 years
b. 3 years
c. 5 years
d. at bank discretion

Ans - b
....

The risks that the banks are generally exposed to and are not captured or not fully captured in regulatory CRAR include which of the following?

a. settlement risk, liquidity risk
b. reputational risk, strategic risk
c. risk of under-estimation of credit risk under standardized approach
d. all the above.

Ans - d
....

Estimated level of operational Risk will be calculated as ...... (i) Estimated probability of occurrence, (ii) Multiply (i) by estimated potential financial impact, (iii) Multiply (ii) by estimated impact of internal controls

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

What is scenario analysis? (i) It involves expert opinion in conjunction with external data, (ii) It evaluates exposure to high severity events, (iii) The Approach uses the knowledge and experience of Risk Management experts

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Basel III, which of the following is part of the regulatory retail portfolio? (1) mortgage loans which qualify as claim secured by residential property or commercial real estate (2) consumer credit or personal loans or credit card receivables (3) capital market exposure (4) venture capital exposure

a. 1 and 3 only
b. 2 and 4 only
c. 1 to 4 all
d. none of the above

Ans - d
....

Under Basel III, to consider a claim as part of regulatory retail portfolio, which of the following condition is stated correctly? (i) orientation criteria i.e. the exposure to individual person or to small business, where total average annual turnover in small business is less than Rs.50, (ii) granularity criteria i.e. no aggregate exposure to one counterpart is more than 2% of overall regulatory retail portfolio, (iii) maximum retail exposure to one counterpart does not exceed the threshold limit of Rs. 1 cr

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - a
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach, does not match for claims on foreign banks (based on rating of international rating agencies such as S & P, Fitch, Moody's Rating), in respect of which of the following?

a. AAA to AA rating—20%
b. BBB rating—50%

c. Below B rating—150%
d. unrated —150%,

Ans - d
....

Which of the following is/are market liquidity Risk? (i) Lack of liquidity of an instrument or Asset in time, (ii) The financial strength of an instrument, (iii) The loss may occur due to fluctuations in the market price at the times of liquidating

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - b
....

Which of the following may affect the yield on Assets? (i) Commodity prices, (ii) Interest rates, (iii) Exchange rates

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Payment and Settlement Risk may be on account of ...... (i) Payments and collections, (ii) Funds transfer, (iii) Clearing and settlement

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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

Ans - a
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for home loan up to Rs.20 lac where loan to value (LTV) ratio is 90% is ...... %

a. 20
b. 50
c. 75
d. 100

Ans - b
....

Derivatives are ...... (i) Over the counter instruments, (ii) They are not liquid as market instruments, (iii) Banks hold derivatives until maturity

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the following is not a derivative instrument?

a. Interest Rate Swap
b. T Bill
c. Currency Swap
d. Options

Ans - b
....

Which of the following statements is correct regarding Derivative? (i) Mark to market value of a derivative depends on market movements, (ii) It is the present value of all future flows at market rates, (iii) Hold to maturity risk is also known as counterparty risk

a. Only (i) and (ii)
b. Only (i) and (iii)

c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Under Basel III, the risk weight for capital charge for credit risk as per standardized approach for home loan of above Rs.75 lac, where loan to value (LTV) ratio is 75% is ...... %

a. 20
b. 50
c. 75
d. 100

Ans - c

....

Risk is defined as uncertainties resulting in ...... (i) Adverse outcome, adverse in relation to planned objectives or expectations, (ii) Adverse variation of profitability or outright losses (financial risk)

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - a

....

The risk of "insolvency" is basically the risk of ......

a. borrowers not paying off lenders in a timely fashion
b. machinery breakdowns
c. not being able to find a buyer for an asset
d. asset value falling below liability value

Ans - d

....

For securities issued across international borders, changes in the legal and governmental environment can make it difficult for the investor to collect. Such a risk would be termed ......

a. Credit risk
b. Sovereign risk
c. Off balance sheet risk

d. Insolvency risk

Ans - b

....

A portfolio of stocks fluctuates when the treasury yields change. Since this risk can not be eliminated through diversification, it is called ......

a. Firm specific risk
b. Systematic risk
c. Unique risk
d. None of the above

Ans - b

....

Arbitrage is based on the idea that ......

a. assets with identical risks must have the same expected rate of return
b. securities with similar risk should sell at different prices
c. the expected returns from equally risky assets are different
d. none of the above

Ans - a

....

Which of the following is correct? (i) Lower risk implies lower variability in net cash flow, (ii) Higher variability in net cash flow may result in higher profits or higher losses, (iii) Higher risk would imply higher upside and downside potential

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

How operational Risk mitigation could be achieved? (i) Insurance cover may minimize the Risk, (ii) Capital Allowance under insurance is available, (iii) Qualitative approach in operational frame work would also be useful

a. Only (i) and (ii)
b. Only (i) and (iii)

c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

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 low depending upon type of investment

Ans - b
....

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

Ans - a
....

Under Basel III, the risk weight is for capital charge for credit risk on the basis of standardized approach for commercial real estate—residential housing is ...... %

a. 20
b. 50
c. 75
d. 100

Ans - c
....

Under Basel III, by using the Basic Indicator Approach, banks must hold capital for operational risk equal to the average over the prescribed no. of previous years, at ...... % (denoted as alpha. of positive annual gross income

a. 8
b. 9
c. 12

d. 15

Ans - d

....

Bank's exposure for dwelling unit to an individual shall be treated as ...... exposure to commercial real estate, as per Basel III

a. 2nd
b. 3rd
c. 4th
d. 5th

Ans - b

....

The operating and liquidity risk may be on account of ...... (i) Failure of execute or settle a transaction, (ii) Adverse changes in the cash flows of transactions

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d

....

The major components of Risk management are ...... (i) Risk identification, (ii) Risk measurement, (iii) Risk control

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

For the purposeof calculation of capital charge for • operational risk under basic indicator approach, the gross income means ......

a. net interest income
b. net non-interest income
c. net interest income + net non-interest income

d. net interest income minus net non-interest income

Ans - c

For the purpose of calculation of capital charge for operational risk under basic indicator approach, the gross income means ......

a. net profit + provisions and contingencies
b. net profit + provisions and contingencies + operating expenses
c. net profit + operating-expenses
d. provisions and contingencies + operating expenses.

Ans - b

As per Basel III implementation, the risk weight for unsecured portion of NPA for credit risk as per standardized approach is ...... % if the specific provision is less than 20% of the outstanding in NPA account

a. 150
b. 100
c. 75
d. 50

Ans - a

Under Basel III, under standardized approach, the total risk weighted off-balance sheet credit exposure is calculated by taking into account, the credit conversion factor (CCF). In which of the following, the CCF is not correctly stated?

a. direct credit substitutes such as financial guarantee or standby LC — 100%
b. performance guarantees - 50%
c. self liquidating short term LC covering trading in goods — 50%
d. note issuance facilities and revolving underwriting facilities - 50%

Ans - c

Credit enhancements under Securitization exposure, that are first loss positions, is to be risk weighted at ...... % under Basel III requirements

a. 125

b. 375
c. 625
d. 1111

Ans - d
....

Which of the following is true regarding settlement risk? (i) It is a systematic Risk, (ii) There is much emphasis now a days on Risk free settlement, (iii) In India we have now real time gross settlement system

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for home loan of above Rs.20 lac up to Rs.75 lac, where loan to value (LTV) ratio is 80% is ...... %

a. 20
b. 50
c. 75
d. 100

Ans - b
....

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

Ans - b
....

Risk that could arise due to legal actions or uncertainty of interpretations of contracts and agreements is called ......

a. legal risk,

b. contract risk
c. country risk
d. uncertainty risk

Ans - a
....

The consequences of Reputation Risk may be ...... (i) Negative public opinion, (ii) Decline in customer base, (iii) Financial loss to the organization

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

A bank finds it difficult to repay the short term deposits on maturity to its deposits because the funds of the bank are locked in long term loans or investments. The risk arising from this situation is called ......

a. Interest rate risk
b. Liquidity risk
c. Operational risk
d. Market risk

Ans - b
....

Under Basel III, the risk weight is for capital charge for credit risk on the basis of standardized approach for exposure to commercial real estate ...... %

a. 20
b. 50
c. 75
d. 100

Ans - d
....

Under Basel III, for home loan purpose, the loan to value ratio (LTV) ratio is calculated as ......

a. (principal + other charges) / (realizable value of mortgage property)
b. (principal + accrued interest + other charges) / (realizable value of mortgage property)

c. (principal + accrued interest) / (realizable value of mortgage property)
d. (principal + accrued interest + other charges) / (cost of mortgage property)

Ans - b

....

When failure of the financial system affects other systems such as insurance market or forex market, such risk is ......

a. liquidity risk
b. settlement risk
c. systemic risk
d. clearing process risk

Ans - c

....

Risk may be defined as ...... (i) Uncertainties resulting in adverse outcome, (ii) Adversity may be in connection with planned objective or expectation, (iii) When there is an adverse situation in terms of profitability is called financial risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

As per Basel III implementation in India, within the minimum Tier 1 capital, the additional Tier capital can be ......

a. min 5.5% of risk weighted assets (RWA)
b. max 5.5% of RWA
c. min 1.5% of RWA
d. max 1.5% of RWA

Ans - d

....

As per BaselIII implementation in India, within total capital of 9% of risk weighted assets, the Tier 2 capital can be ......

a. max equal to Tier I capital

b. min equal to Tier I capital
c. max equal to 2% of risk weighted assets
d. min equal to 2% of risk weighted assets

Ans - c
....

The current credit risk can be defined as ...... (i) It is a risk exposure in the current liquidation value, (ii) Value of financial instrument varies depending upon market factors, (iii) Credit risk amount varies with the change in the value

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

What is Settlement Risk? (i) In a financial market transaction one party pays money and receives the instruments, (ii) The counterparty receives the money and parts with the instrument, (iii) If any of the above transacting parties defaults it is known settlement risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

What is Risk management? (i) It is the process of identifying and controlling the Risk, (ii) The process includes measurement of Risk, (iii) Monitor and control of Risk is also an important aspect of Risk management

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Which of the following statements is not correct regarding Basel III implementation in India?

a. minimum common equity Tier I ratio should be 5.5% of RWAs
b. Capital Conservation Buffer (CCb. consisting of common equity, should be 2.5% of RWAs
c. maximum additional tier 1 capital should be 1.5% of RWAs
d. None of the above

Ans - c
....

The objectives of Risk management are ...... (i) Survival of an organization, (ii) Earning stability, (iii) Efficiency in operations

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Market risk takes the form of (which one is not correct) ......

a. commodity price risk
b. interest rate risk
c. loan default risk
d. liquidity risk.

Ans - c
....

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

Ans - b
....

If a daily volatility of a stock is one percent what is the approximate volatility for 10 days?

a. 3 percent

b. 10 percent
c. 1 percent
d. 4 percent

Ans - a

Capital charge component of pricing Account for ...... (i) Loss Premium, (ii) Internal generation of capital, (iii) Cost of capital

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - c

Which of the following financial instruments are included in trading transactions? (i) Debt securities, (ii) Equity, (iii) Forex instruments

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

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

Ans - a

The features of Credit Risk are ...... (i) Credit Risk of debt instruments is indicated by credit rating, (ii) It indicates the Risk level associated with the debt instrument, (iii) Lower the Risk level, lower is the spread over Risk Free Rate

a. Only (i) and (ii)

b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

The risk that loss may arise on account of trading in SLR and other securities by a bank is classified as ......

a. credit risk
b. investment fluctuation risk
c. trading risk
d. market risk

Ans - d
....

Strategic Risk may arise due to ...... (i) Improper implementation of decisions, (ii) Lack of monitoring and control, (iii) Lack of responsiveness to industry changes

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach for which of the following exposure, does not match?

a. venture capital — 150%
b. consumer credit or personal loans— 125%
c. credit card - 125%
d. capital market exposure - 100%

Ans - d
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach is ......% for staff loans secured by superannuation benefits or mortgage of flat / house

a. 20

b. 50
c. 75
d. 100

Ans - a
....

Which of the following statements is correct? (i) Since a Business have variations in cash flows which results in Risk, (ii) The Risk in a Business may be measured by using standard deviation of past performance, (iii) Standard deviation of risk may range from zero to one

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

As per Basel III implementation, the risk weight for unsecured portion of NPA for credit risk as per standardized approach is ...... % if the specific provision is at least 50% of the outstanding in NPA account

a. 150
b. 100
c. 75
d. 50

Ans - d
....

Uncertainties in cash inflows and / or outflows create uncertainties in ...... (i) net cash flow, (ii) profits

a. Only (i)
b. Only (ii)
c. Either (i) or (ii)
d. Both (i) and (ii)

Ans - d
....

The Net Interest Margin signifies ......

a. It is the result of Net Interest Income divided by average total Assets

b. It can be viewed as spread on earning Assets
c. The higher the spread. more will be the Net Interest Margin
d. All the above

Ans - d

The risk that the interest rate of different assets and liabilities may change in different magnitude is called ......

a. Embedded Risk
b. Maturity Risk
c. Basis Risk
d. Price Risk

Ans - c

A Bank may face the following Risk ...... (i) Balance Sheet Risk, (ii) Transaction Risk, (iii) Operating and Liquidity Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

The factors contributing to Balance Sheet Risk are ...... (i) Mismatch between the currency, (ii) Maturity and interest rate pattern, (iii) Structure of Assets and Liabilities

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

Which of the following combinations is important to meet funding needs of a Bank?

a. Increase short term Borrowings
b. Minimise holding of less liquid Assets

c. Increase Capital Funds
d. All the above

Ans - d
....

Credit rating together with their respective default probabilities help us to estimate ......

a. Expected losses
b. Unexpected losses
c. Both a and b
d. Neither a nor b

Ans - c
....

Market risk is also called ...... and ......

a. systematic risk, diversifiable risk
b. systematic risk, nondiversifiable risk
c. unique risk, nondiversifiable risk
d. unique risk, diversifiable risk

Ans - b
....

A bank in India is to comply with capital adequacy ratio requirements at ...... (i) consolidated (group) level after consolidating the assets liabilities of its subsidiaries / joint ventures, (ii) solo level, (iii) overseas operations of the bank under (i) and (ii)

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

In India, the banks are required to maintain a minimum Pillar 1 capital to risk weighted assets ratio (or) minimum total capital to risk weighted assets ratio of ...... as on ......

a. 8%, 31st Mar each year
b. 9%, 31st Mar each year
c. 8%, ongoing basis

d. 9%, ongoing basis.

Ans - d

....

A measure of the riskiness of an asset held in isolation is ......

a. beta
b. standard deviation
c. covariance
d. semi-variance

Ans - b

....

The Balance Sheet Risk may result in ...... (i) Interest rate mismatch Risk, (ii) Liquidity Risk, (iii) Foreign Exchange Risk

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Certain specific prescription of Basel II capital adequacy framework will continue to apply along with Basel III (parallel run), till:

a. 31.03.2019
b. 31.03.2018
c. 31.03.2017
d. 31.03.2016

Ans - b

....

Out of the following, which are domestic credit rating agencies, approved by RBI for the purpose of credit rating to determine risk weight for rated exposures (1) Brickwork (2) CARE (3) Fitch (4) CRISIL (5) Moody's (6) SMERA (7) Standard & Poor

a. 1, 2, 4, 7
b. 1, 2, 4, 6
c. 1, 2, 3, 4

d. 1, 2, 4, 5

Ans - b

....

A Bank's Trading Book exposure may arise on account of the following ...... (i) Adverse changes in the interest rate, (ii) Currency exchange rate unfavourable movements, (iii) Market liquidity

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Which of the following statements is correct? (i) Assets Liquidation Risk is a situation where a specific Asset faces lack of trading liquidity, (ii) Market Liquidation Risk is a situation where liquidity crunch is general, (iii) The above (ii) affects trading liquidity adversity

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

To be eligible for risk weighting purposes under Basel Ill, the rating from a credit rating agency approved by RBI, should be in force and confirmed from the monthly bulletin of the concerned rating agency. The rating agency should have reviewed the rating at least once during the previous months

a. 6 months
b. 9 months
c. 12 months
d. 15 months

Ans - d

....

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

Ans - a
....

As per Basel III implementation, the risk weight for unsecured portion of NPA for credit risk as per standardized approach is ...... % if the specific provision is at least 20% of the outstanding in NPA account

a. 150
b. 100
c. 75
d. 50

Ans - b
....

Exposure to uncertainty in economi c value of an investment that could not be marked to market is called ......

a. trading risk
b. business risk
c. market risk
d. liquidity risk

Ans - b
....

Which of the following Risk Factors may affect the Business adversity? (i) Sales volume and sales price, (ii) Purchase Price, (iii) Administrative expenses

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

As per Basel HI requirements, modified by RBI, call option on Additional Tier 1 instrument (PNCPS and PDI) will be permissible at the initiative of the issuer after the instrument has run for at least ...... years

a. two years

b. three years
c. five years
d. ten years

Ans - c
....

Under Basel III, which of the following are eligible as collateral for credit risk mitigation purpose? (1) cash (2) gold (3) Central or State Govt. securities (4) Kissan Vikas Tatra or National Saving Certificates (5) Life insurance policies and units of mutual funds (6) debt securities rated or unrated

a. 1 to 6 all
b. 2 to 6 only
c. 2 to 5 only
d. 3 to 5 only

Ans - a
....

Under Basel III, the risk weight for capital charge for credit risk on the basis of standardized approach is ...... % for staff loans other than secured by superannuation benefits or mortgage of flat / house, being eligible under regulatory retail portfolio

a. 20
b. 50
c. 75
d. 100

Ans - c
....

As per Basel III, which of the following can be included in Additional Tier I capital? (i) Perpetual Noncumulative Preference shares — PNCPS, (ii) stock surplus or share premium resulting from issue of Additional Tier I instruments, (iii) Debit capital instruments eligible to be included in additional Tier I

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

As per Basel III, the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices is called ......

a. credit risk
b. market risk
c. pricing risk
d. liquidity risk

Ans - b
....

The market risk positions, that are subject to capital charge requirement, includes which of the following positions, under Basel III?

a. risk pertaining to interest rate related instruments in the trading book
b. risk pertaining to equities in the trading book
c. forex risk including open positions in precious metal
d. all the above.

Ans - d
....

The trading book of a bank is subject to market risk. As per Basel III, which of the following is not included in the trading book for capital adequacy purpose?

a. securities under HFT and AFS
b. open gold positions and forex positions
c. trading positions in derivatives
d. securities under HTM

Ans - d
....

Liquidation Risk result in ...... (i) Average change in market price, (ii) Inability to liquidate position at a fair market price, (iii) Inability to liquidate position at any price

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
....

If a security has matured and remains unpaid, it attract capital for ...... risk on completion of 90 days delinquency period

a. credit risk
b. market risk
c. operational risk
d. at discretion of the bank

Ans - a

....

Which of the following contributes to Instrument Risk? (i) The nature of hybrid instruments in the market, (ii) Fluctuations in the market conditions, (iii) The prices of various instruments may react differently from one another

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Market risk is the risk of loss in ...... (a) on-balance sheet positions (b) off balance sheet positions (c) arising from movement in market prices

a. a to c all are correct
b. only a and c correct
c. only b and c correct
d. only a and b correct

Ans - a

....

The non-compliance of the following may cause Compliance Risk ...... (i) Standards of good practice, (ii) Codes of conduct, (iii) Compliance of applicable loans

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d

....

Which of the followings are Components of portfolio risk are?

a. Default risk and systematic risk
b. Down - gradation and concentration risk
c. Concentration risk and intrinsic risk
d. Default risk and down -gradation risk

Ans - c
…………………………………….

Which of the following risks is associated with the economy?

a. Default risk
b. intrinsic Risk
c. interest rate risk
d. Counterparty risk

Ans - b
…………………………………….

As per Basel III implementation in India, Common Equity Tier 1 capital must be ...... % of risk weighted assets on ongoing basis

a. 5.5
b. 7
c. 9
d. 11

Ans - a
…………………………………….

The features price Risk are ...... (i) It includes the risks of loss due to the change in value of Assets and Liabilities, (ii) It also includes market risk due to fluctuations in price of Assets in the market, (iii) This may happen on account of Issuer Risk which depends on the financial strength of the issuer

a. Only (i) and (ii)
b. Only (i) and (iii)
c. Only (ii) and (iii)
d. (i), (ii) and (iii)

Ans - d
…………………………………….

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

Ans - a
....

As per Basel III implementation in India, minimum Tier 1 capital must be ...... % of risk weighted assets on ongoing basis

a. 5.5
b. 7
c. 9
d. 11

Ans - b
....

Which of the following statements is not correct regarding Basel III implementation in India?

a. minimum Tier I capital ratio should be 8%
b. Tier 2 capital should be max 2%
c. minimum total capital ratio should be 9%
d. minimum total capital ratio plus capital conservation buffer should be 11.5%

Ans - a
....

As per Basel III, which of the following is an element of Common Equity component of Tier I? (1) common shares i.e. paid up equity capital (2) stock surplus i.e. share premium (3) statutory reserves (4) capital reserves representing surplus arising out of sale proceeds of assets (5) balance in profit and loss account at the end of the previous year

a. 1 to 5 all
b. I to 4 only
c. 1,4 and 5 only
d. 1, 2 and 3 only

Ans - a
....

ALL THE VERY BEST FOR YOUR EXAMS

SAMPLE QUESTIONS FOR
CAIIB
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Though we had taken enough care to go through the questions, we shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents. We advise everyone to update yourself with the latest information through RBI website and other authenticated sources. In case you find any incorrect/doubtful information, kindly update us also (along with the source link/reference for the correct information) as lot of questions were shared by many people.

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